

MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Thursday, December 1, 2016 - The members of Endowment Management Committee of the University of Houston System convened at 9:36 a.m. on Thursday, December 1, 2016, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Durga D. Agrawal, Chair
Roger F. Welder, Vice Chair
Beth Madison, Member
Gerald W. McElvy, Member

Non-Member(s) Present

Paula M. Mendoza, Regent
Peter K. Taaffe, Regent
Welcome W. Wilson, Jr., Regent
Joshua A. Freed, Student Regent, Non-voting

Members Absent

Spencer D. Armour, III, Member
Tilman J. Fertitta, Ex Officio

In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, the Chair of the Committee, Durga D. Agrawal, called the meeting to order.

AGENDA ITEMS

Action Items

Regent Agrawal stated there were seven (7) agenda items to be addressed – two (2) requiring committee and board approval; four (4) requiring committee approval only; and the remaining item for information only. There were four (4) representatives from Cambridge Associates who were present at the meeting and presented several of the items listed on the agenda. It was also noted that after discussions and any recommendation(s) made from Cambridge Associates, a vote was called; and that the recommendations from Cambridge Associates required committee approval only.

Regent Agrawal asked Mr. Jim McShan, Senior Vice Chancellor for Administration and Finance to please introduce the first item listed on the agenda, Item B, a Report from Cambridge Associates regarding the UH System Endowment and Non-endowed portfolios – University of Houston System.

Mr. McShan stated the four (4) Cambridge Associates in attendance at the meeting were: Erin Schuhmacher, Mark Dalton, Phil Fiske, and Katherine Chu, all of whom would be presenting various items to the committee that were listed on the agenda. Mr. McShan then asked Ms. Schuhmacher to please begin her presentation.

Ms. Erin Schuhmacher, from Cambridge Associates, stated that Mr. Kerry Kirk, the lead consultant from Cambridge Associates for UH, was unable to attend the meeting due to a logistical conflict, but he was very present when they had discussed the agenda and their recommendations that would be presented at this meeting.

Ms. Schuhmacher proceeded with a market update and said from a quarter-to-date perspective, it had been a strong quarter for risk assets; in fact, through September 2016 on a calendar basis, it was noted that there was a decent performance across the equity markets as well as real assets and commodities. Emerging markets had a good rebound in the third quarter as well as on a year-to-date basis. In terms of the commodities spectrum, it was a bit mixed in the third quarter, but it had rebounded coming off of a difficult period.

In terms of the University of Houston's performance for the quarter and year-to-date, it had been a good quarter for the University's portfolio - up 4.1% ahead of both the policy and the dynamic benchmark of 3.4%. Ms. Schuhmacher stated that what really drove this return was on the absolute basis, the tilt towards emerging markets was beneficial and the specific managers within this allocation had performed very well. In addition, in the real assets portion of the UH portfolio, the UH managers had performed quite well. As a key detractor, a global bond manager had struggled a bit in the quarter as well as in the year; but Cambridge would address this issue later in the meeting. On a year-to-date basis, the UH portfolio was up 5.3% ahead of both the dynamic and policy benchmarks. Emerging markets had a strong driver of returns both on an absolute as well as relative basis. In terms of what had been a detractor in the portfolio on a year-to-date basis, hedge funds continued to lag slightly.

Ms. Schuhmacher also presented a fixed income review and recommendation to the committee. The University of Houston's current fixed income allocation was invested in sovereign bonds both in the U.S. and internationally via two (2) managers. Cambridge recommended consolidating the manager lineup to one (1) manager. Cambridge would also change the mandate and provide the manager with more flexibility and ability to add value over their fees; and then change the policy benchmark commiserate with this change. In terms of where the portfolio was today, the University currently has fixed income investments through two (2) managers: Smith Graham, which is running a long-treasury portfolio; and Templeton, which is a global bond manager.

Cambridge's recommendation to the committee was to fully redeem from Templeton Global Bond and to give those proceeds to Smith Graham within a new investment mandate as it relates to how they will manage the portfolio.

There were three (3) factors driving this recommendation:

1. Cambridge was looking to lower the interest rate as sensitivity of the portfolio;
2. Increase the quality of the fixed income portfolio; and
3. Remove currency risk.

Ms. Schuhmacher also stated that by doing this recommendation, there would also be a reduction in fees. Smith Graham has agreed to lower their fees for this mandate (Templeton did have a higher fee structure). There will be approximately \$100,000 in fee savings with this change on an annual basis.

Ms. Schuhmacher discussed the UH fixed income allocation which would be comprised of higher quality bonds focused in the U.S. The current UH fixed income allocation (56% Smith Graham and 44% Templeton Global Bond) was reviewed in both credit quality and country allocation; with the recommendation to one (1) manager, Smith Graham. There were two (2) points made:

1. UH currently has approximately 14% of the portfolio in Below BBB-rated securities and moving forward, from a credit quality perspective, this portion of the portfolio would no longer exist; and
2. From a country allocation standpoint, currently the UH portfolio was focused on North America but has investments globally; but moving forward the allocation would all be focused in the U.S. which would remove the currency risk associated with these investments.

Cambridge also stated that with global yields near zero, they recommended reducing the interest rate sensitivity of the bond portfolio. The current duration of the fixed income rate portfolio was just under 10 years and Cambridge recommended it be moved to 3-1/2 years. Lastly, Cambridge's recommended structure was significantly more diversified by sector. UH's current fixed income portfolio was focused mostly in sovereign securities. While this portfolio would be focused all in the U.S., Cambridge was changing Smith Graham's mandate from long-treasuries to an intermediate aggregate strategy. Commiserate with this change, Cambridge recommended changing the benchmark. The prior benchmark had been exclusively focused on sovereign securities, both treasuries and global bonds; and the proposed benchmark will be the Bloomberg Barclays Aggregate Bond Index.

Following Ms. Schuhmacher's presentation, Regent Agrawal stated that Item B and Item C had been addressed. Item B, had been presented for information only and required no committee action.

Regent Agrawal then called for a motion to approve Item C, Approval is requested to modify the fixed income manager structure and the fixed income policy benchmark within the UH System Endowment Fund – UH System.

On motion of Regent Welder, seconded by Regent Madison, and by a unanimous vote of the committee members in attendance, the approval to modify the fixed income manager structure and the fixed income policy benchmark within the UH System Endowment Fund was approved. It should be noted that this item, approved by the committee, required committee approval only and no further board action was required.

Following the approval of this item, Mr. McShan stated that Item D, Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – UH System had also been addressed by Ms. Schuhmacher in her presentation and asked Regent Agrawal to call for the vote on this item.

Regent Agrawal called for a motion of the committee to consider and approve Item D as presented.

On motion of Regent McElvy, seconded by Regent Welder, and by a unanimous vote of the committee members in attendance, the request to modify the UH System Endowment Fund

Statement of Investment Objectives and Policies – UH System was approved. This item does require full board approval.

Regent Agrawal moved to Item E, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a new private investment manager and to invest additional capital in existing private investment managers for the UH System Endowment Fund – UH System, and asked Mr. McShan to please introduce this item.

Mr. McShan asked Mr. Phil Fiske, from Cambridge Associates, to present this item for the committee's consideration. Mr. Fiske stated that there would be four (4) recommendations submitted for the committee's consideration and approval; and that all four (4) recommendations were with managers that the endowment had previously invested in. He stated that in 2015, the University of Houston had committed \$54.0 million to private investments; and year-to-date through Q3 2016, the University of Houston had committed \$30.0 million. The University of Houston's private investments (PI) program was still relatively immature, but the program had done well. Since inception, the University's PI program had returned 14.2% versus a benchmark of 9.4% or 480 basis points better than benchmark.

The four (4) recommendations to be presented by Cambridge Associates representatives for the committee's consideration were as follows:

1. EnCap Energy Capital Fund XI - \$10.0 million
2. Great Hill Equity Partners VI - \$7.5 million
3. Silver Lake Partners V - \$7.5 million
4. Stone Point Trident VII - \$7.5 million

Mr. Fiske asked Ms. Katherine Chu, from Cambridge Associates, to address the recommendation of a \$10.0 million commitment to EnCap Energy Capital Fund XI for the committee's consideration. Ms. Chu stated that EnCap Investments was seeking approximately \$6.5 billion for its eleventh private equity fund, EnCap Energy Capital Fund XI, LP. A first close was being planned for December 2016, and a second and final close was expected in the first quarter of 2017.

The University had previously committed to Fund X for \$4.0 million and \$15.0 million to Fund VII. EnCap was one of three (3) upstream oil and gas managers. EnCap's strategy of providing experienced management teams with staged growth capital to acquire, develop, and exploit undermanaged oil and gas assets was unchanged from prior funds, as well as the fund size at a \$6.5 billion target. They will focus on upstream oil and gas opportunities. Ms. Chu also stated that in December 2015, EnCap announced the sale of 25% of the firm to Dyal Capital, a subsidiary of Neuberger Berman that takes minority equity interests in institutional private equity management companies, along with shares of their management fees and carried interest.

The summary of the EnCap Energy Capital Fund XI fundraising terms were as follows:

- Target Fund Size – \$6.5 billion
- Management Fee – Commitment Period: 1.5% of aggregate commitments
Post-Commitment Period: 1.5% of funded commitments
- GP Commitment – 3.0%

Summary of the EnCap Energy Capital Fund XI fundraising terms were as follows (cont'd):

- Preferred Return – 8%
- Carried Interest – 20%
- Partnership Life – 10 years, subject to two one-year extensions with advisory board approval

On motion of Regent Madison, seconded by Regent McElvy, and by a unanimous vote of the committee members in attendance, the recommendation of \$10.0 million to EnCap Energy Capital Fund XI was approved. This action required committee approval only; and no further board action was required.

The second recommendation made by Cambridge Associates was presented by Mr. Fiske for the University of Houston to approve a commitment of \$7.5 million to Great Hill Equity Partners VI, LP. Previously, the University had committed \$4.0 million to Fund V. Great Hill Partners is seeking \$1.25 billion in commitments for its sixth fund. The firm plans to hold a first close on January 18, 2017. Great Hill is an equity growth manager; and consistent with prior funds, Great Hill will invest Fund VI in growth equity investments in technology-enabled businesses predominately in the U.S. These companies operate in sectors that the firm knows well, such as digital media, e-commerce, Internet infrastructure, financial services, healthcare information technology, and software companies.

Great Hill was founded in 1998. It has a very senior team with most senior individuals being together since 2002 and in the prime of their investing careers. Great Hill's strategy continues to be focused on middle-market growth companies primarily based in North America; and they will invest predominately in North American companies and restricted from investing greater than 20% of the fund outside the U.S.

The summary of the Great Hill Partners VI fundraising terms were as follows:

- Target Fund Size – \$1.25 billion
- Management Fee – 2.0% in years 1 through 6; reduced fee in subsequent years; weighted average 1.78%
- GP Commitment – 3.0%
- Carried Interest – 20%
- Partnership Life – 10 years, subject to two one-year extensions

The third recommendation made by Cambridge Associates was for the University of Houston to commit \$7.5 million to Silver Lake Partners V, L.P. Ms. Chu addressed this recommendation and stated that Silver Lake Partners was seeking \$12 billion in commitments for its fifth fund, Silver Lake Partners V. A first close is planned for spring 2017, with additional closes expected to be held thereafter. Consistent with other funds, the firm will continue to invest in large, global technology and technology-enabled companies in a range of sub sectors. Transaction types will include leveraged buyouts, public-to-privates, carve-outs, structured minority transactions, acquisition turnarounds, debt investments, growth equity, and recapitalizations. The university had previously committed \$4.0 million to Silver Lake Partners IV. The manager expects the majority of fund capital to be invested in control or control-oriented transactions, with 20% to be invested in growth

deals with significant minority ownership. A commitment to Silver Lake Partners represents an opportunity for the University to further develop its relationship with one of the largest and most experienced teams of technology-focused global investors.

The summary of the Silver Lake Partners V fundraising terms were as follows:

- Target Fund Size – \$12.0 billion
- Management Fee – 1.5% committed capital during the commitment period; 1.0% on remaining commitments thereafter
- GP Commitment – 3.0%
- Carried Interest – 20%
- Partnership Life – 10 years, subject to two one-year extensions

The final private investment recommended by Cambridge Associates was for the University of Houston to approve a commitment of \$7.5 million to Stone Point Trident, VII, LP. Mr. Fiske stated that Stone Point Capital was seeking up to \$5.25 billion in commitments for its seventh financial service-focused fund, Trident VII. A first close occurred in September 2016, with a final close anticipated in January 2017. Consistent with prior funds, Trident VII will pursue control and, to a lesser extent, non-control financial services investments, including insurance, reinsurance, asset management, banks, specialty finance, mortgage, and other ancillary service businesses in the U.S., the UK, Western Europe, and Bermuda.

Mr. Fiske stated that Stone Point traces its roots back more than 30 years to its inception as MMC Capital, the captive private equity division of Marsh & McLennan. In 1994, the firm launched its first private equity fund, Trident I, to invest primarily in the insurance industry. A commitment to Stone Point Trident VII presents a compelling opportunity for the University to invest with a differentiated and industry-focused manager run by a tenured and proven team.

The summary of the Stone Point Trident, VII, L.P fundraising terms were as follows:

- Target Fund Size – \$5.25 billion
- Management Fee – Commitment Period: 1.5% of commitments
Post-Commitment Period: 1.5% of funded commitments, less write-offs, fees, and expenses
- GP Commitment – At least \$125 million from employees and 0.2% from the GP 3.0%
- Carried Interest – 20%
- Partnership Life – 10 years, subject to three one-year extensions

On motion of Regent Madison, seconded by Regent McElvy, and by a unanimous vote of the committee members in attendance, the remaining three (3) private investment commitments were recommended and approved by the committee as follows:

1. Great Hill Equity Partners Fund VI for \$7.5 million;
2. Silver Lake Partners V, L.P. for \$7.5 million; and
3. Stone Point Trident VII, L.P. for \$7.5 million.

These final three (3) approved private investments required committee approval only. No further board action was needed.

Regent Agrawal moved to Item F on the agenda, the Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the subscription of additional shares in hedge funds currently in the University of Houston System Endowment Fund – UH System and asked Mr. McShan to introduce this item to the committee.

Mr. McShan stated that Cambridge would be recommending and discussing increasing the University's investment in two (2) of the University's hedge funds by \$5.0 million each and asked Mr. Mark Dalton, with Cambridge Associates, to please address this issue.

Mr. Dalton stated that the University of Houston's Hedge Fund Program was designed to provide a diversified "market-like" source of return at lower levels of risk over the long-term. Since inception, the hedge fund allocation had outperformed the HFRI benchmark by 1.7% while achieving 61% of the return of global equities with approximately 38% of the volatility over the same time period. The University is still going through a challenging period for hedge funds and we have been focusing on three (3) strategic initiatives:

1. Lowering the fees on the overall program;
2. Improve the liquidity of the Hedge Fund Program; and
3. Adding funds that have very little correlation to the equity markets.

With the existing managers in the lineup, Cambridge Associates was not recommending any changes at this point, but they did recommend \$5.0 million additions, either to long standing multi-strategy managers:

1. \$5.0 million addition to Davidson Kempner; and
2. \$5.0 million addition to HBK.

A brief discussion followed.

On motion of Regent Welder, seconded by Regent Madison, and by a unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for the subscription of additional shares in hedge funds currently in the University of Houston System Endowment Fund – UH System was approved. This action required committee approval only; no further board action was required.

The next item addressed on the agenda was Item G, the Approval is requested to redeem from various global equity investments in the University of Houston Endowment Fund – UH System. Mr. McShan stated that the purpose of this request was to partially rebalance the University's portfolio as well as generate cash for the annual payout from the Endowment which was the 4% in each of the beneficiary accounts. There will be approximately \$18 million cash generated here and approximately an additional \$10 million in cash already within the Endowment that would be used to payout the \$28 million annual payout.

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Ms. Schuhmacher stated that Cambridge Associates was recommending a full redemption from Deutsche X-Trackers in Q4 2016 in the amount of \$8.0 million; a partial redemption from JO Hambro Asia ex Japan in Q4 2016 in the amount of \$5.0 million; and a partial redemption from Oldfield in Q1 2017 in the amount of \$5.0 million. The rationale behind this recommendation was Cambridge was trimming from Oilfield and JO Hambro to crystallize strong year-to-date gains and rebalance geographical allocations. Cambridge's decision to redeem Deutsche X-Trackers was part of an ongoing plan to streamline manager structure and reduce small positions.

On motion of Regent McElvy, seconded by Regent Welder, and by a unanimous vote of the committee members in attendance, the request to redeem from various global equity investments in the University of Houston System Endowment Fund – UH System was approved. This action required committee approval only; and no further board action was required.

The last item listed on the agenda was Item H, the Approval is requested to liquidate an endowment from the University of Houston System Endowment Fund and transfer the proceeds to the University of Houston Foundation – UH System.

Mr. McShan presented this item and stated that the Texas Executive Women Scholarship Endowment has a gender-specific restriction on it and by state law the University was not allowed to administer from the University; therefore, this endowment would be liquidated and the proceeds transferred to the University of Houston Foundation. The same restrictions would apply. This was a housekeeping procedure. The market value of this endowment is currently \$65,569.00.

On motion of Regent Madison, seconded by Regent McElvy, and by a unanimous vote of the committee members in attendance, the request to liquidate an endowment from the University of Houston System Endowment Fund and transfer the proceeds to the University of Houston Foundation was approved.

At the conclusion and approval of this item, Regent Agrawal made the motion to place the following two (2) action items unanimously approved by the committee on the Board of Regents' Consent Docket Agenda for final board approval.

On motion of Regent Welder, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the following two (2) action items were approved and will be placed on the Board of Regents' Consent Docket Agenda for final board approval at the December 1, 2016 Board of Regents' meeting held later in the day as follows:

1. Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies – UH System; and
2. Approval is requested to liquidate an endowment from the University of Houston System Endowment Fund and transfer the proceeds to the University of Houston Foundation – UH System

There was no Executive Session held.

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There being no further business to come before the committee, the meeting adjourned at 10:23 a.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	Erin Schuhmacher	Phil Fiske
Jim McShan	Katherine Chu	Mark Dalton
Paula Myrick Short	Macie Kelley	John Vasquez
Dona Cornell	Mike Glisson	Neil Eldin
Lisa Holdeman	Mike Rosen	Tomikia P. LeGrande
Jason Smith	David Bradley	Ryan Harrison
Ramanan Krishnamoorti	Leroy Mays	Matt Castillo
Eloise Dunn Stuhr	Don Price	Caesar Moore
Richard Walker	Sabrina Hassumani	Deidra Garcia
Michael Olivas	Brett Collier	Michael Atteberry
Mike Johnson	Don Guyton	Raymond Bartlett
David Oliver	Lindsey Ellis	Alan Dettlaff
Brinda Penmetsa	Jon Aldrich	Phil Booth
Brian Thomas	Marquette Hobbs	Brenda Robles