

**University of Houston System  
Endowment Fund**

Independent Auditor's Report and Basic Financial Statements

August 31, 2021 and 2020



**University of Houston System  
Endowment Fund  
August 31, 2021 and 2020**

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## Independent Auditor's Report

Board of Regents  
University of Houston System  
Houston, Texas

We have audited the accompanying financial statements of University of Houston System (the System) Endowment Fund (the Endowment Fund) as of and for the years ended August 31, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Endowment Fund's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

***Opinion***

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of University of Houston System Endowment Fund as of August 31, 2021 and 2020, and the changes in financial position and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

***Emphasis of Matter***

As discussed in Note 1, the financial statements present only the financial position, changes in financial position and cash flows of the Endowment Fund and do not purport to, and do not present fairly the financial position of the System as of August 31, 2021 and 2020, the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

***Other Matter***

***Required Supplementary Information***

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

***BKD, LLP***

Houston, Texas  
January 13, 2022

**University of Houston System**  
**Endowment Fund**  
**Management's Discussion and Analysis – (Unaudited)**  
**August 31, 2021**

**Introduction**

The following Management's Discussion and Analysis (MD&A) provides an overview of the activities and the financial position of University of Houston System (the System) Endowment Fund (the Endowment Fund) for the fiscal year ended August 31, 2021, as compared to fiscal year ended August 31, 2020, with summary comparisons for the year ended August 31, 2019. This MD&A offers a summary of significant current year activities of the Endowment Fund, resulting changes in net position, and currently known economic conditions and facts. This analysis should be read in conjunction with the Endowment Fund's basic financial statements and the notes to the financial statements. Responsibility of the financial statements, related footnote disclosures and MD&A rests with the Endowment Funds' management.

The System is a governmental entity of the State of Texas. The Endowment Fund is a fund group of the System's reporting entity. The financial statements of the Endowment Fund have been prepared in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB).

During fiscal year 2021, the Endowment Management Committee of the University of Houston (UH) System Board of Regents (Board of Regents) continued to review existing objectives, risks, asset allocation, and manager structure within the endowment portfolio and make adjustments as deemed appropriate. The Endowment Fund Statement of Investment Objectives and Policies, among other things, establishes financial objectives for the endowment and an asset allocation with targets and ranges and categorizes each asset class as either a risk reducer or a driver of return.

**Endowment Fund Structure**

Gifts to the UH System are placed in the Endowment Fund for investment and oversight purposes. The Board of Regents strives to maintain a plan to preserve and augment the value of the endowment. The Board of Regents works to preserve the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income. The Endowment Management Committee of the Board of Regents is responsible for reviewing and approving investment managers and monitoring investment performance and allocations of funds to asset classes to ensure appropriate diversification of investment risks for the Endowment Fund, as well as making recommendations to the Board of Regents for any changes to the investment policy.

The Endowment Fund is a pooled investment fund consisting of approximately 1,975 individual endowments benefiting the four UH System universities. The investment pool functions similarly to a mutual fund, with each endowment account owning units that represent a claim on the Endowment Fund's net position. By pooling the investments, the UH System achieves increased diversification of investment risks and more effective management of endowment assets.

## Management of the Fund

The Endowment Fund retains ninety-two independent investment managers who pursue various portfolio management strategies to diversify risk and maximize the total return through a variety of capital market cycles. Investment manager diversification of the Endowment Fund's assets is as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<u>Developed U.S. Equity</u>			
Northern Trust	13%	9%	7%
Columbia Management	7	7	5
Vulcan Value Partners	8	7	6
Gotham	0	5	4
Cougar Investment Fund	<1	<1	<1
Subtotal – developed U.S. equity	28	29	22
<u>Developed International Equity</u>			
William Blair	7	7	5
Silchester	7	7	8
Global Alpha	3	3	3
Subtotal – developed international equity	17	17	16
<u>Developing Markets</u>			
Doddington Emerging Markets	1	1	1
Somerset	1	1	1
Edgbaston Asian Equity	1	1	1
Subtotal – developing markets	3	3	3
<u>Absolute Return</u>			
Anchorage Capital Partners	0	1	1
HBK	2	2	2
Davidson Kempner	2	2	3
Whipporwill	<1	<1	<1
Standard Life	<1	<1	2
ISAM	0	0	2
Subtotal – absolute return	4	6	10
<u>Hedged Equity</u>			
Highline Capital	0	<1	<1
AQR	0	0	2
Coatue	0	0	3
Lakewood	1	<1	2
SRS Partners	1	1	2
Brahman	0	0	2
Subtotal – hedged equity	2	2	11

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<u>Marketable Real Assets</u>			
Vanguard	1%	1%	1%
T. Rowe Price	1	1	2
Subtotal – marketable real assets	2	2	3
<u>Fixed Income</u>			
Smith Graham	6	12	10
Loomis Sayles	2	0	0
PIMCO	2	0	0
Subtotal – fixed income	10	12	10
<u>Private Investments</u>			
Sustainable Woodlands Fund	0	<1	<1
Berwind Property Group VII	<1	<1	<1
Berwind Property Group VIII	<1	<1	<1
Newlin Realty Partners	<1	<1	<1
Newlin Realty Partners II	<1	<1	<1
Other – real estate holdings	0	<1	<1
Commonfund Capital International VI	<1	<1	<1
Commonfund Capital PE VII	<1	<1	<1
Commonfund Capital Venture VIII	<1	<1	<1
Denham Commodity Partners	<1	<1	<1
Denham Oil and Gas	<1	1	1
EnCap Flatrock Midstream II-C	<1	<1	<1
EnCap Flatrock Midstream III	<1	<1	<1
Embarcadero Capital	<1	1	1
Enervest Fund XIV-A	<1	<1	1
Advent International GPE VII	<1	<1	1
Advent International GPE VIII-B	<1	<1	1
Advent International GPE IX	<1	<1	0
EnCap Energy VII-B	<1	1	1
J.H. Whitney VII	<1	<1	<1
TrueBridge – Kauffman Fellows II	<1	1	1
TrueBridge – Kauffman Fellows III	<1	<1	1
TrueBridge – Kauffman Fellows IV	1	<1	1
TrueBridge – Kauffman Fellows V	<1	<1	<1
TrueBridge – Kauffman Fellows VI	<1	<1	0
Dover Street VIII	<1	<1	<1
Dover Street X	<1	<1	0
LiveOak Venture Partners I	<1	<1	<1
Silver Lake Partners V	<1	<1	<1
Jackson Square Ventures II	<1	<1	1
Jackson Square Ventures III	<1	<1	0
Mercury Fund IV	<1	<1	<1
Penzance DC Real Estate Fund	<1	<1	<1
Penzance DC Real Estate Fund II	<1	<1	0
Silver Lake Partners IV	<1	<1	1

	<b>2021</b>	<b>2020</b>	<b>2019</b>
<u>Private Investments (Continued)</u>			
Acme Fund III	<1%	<1%	0%
Silver Lake Partners VI	<1	0	0
SV Life Sciences Fund VI	<1	<1	1
Great Hill Equity Partners V	<1	<1	1
Great Hill Equity Partners VI	1	<1	1
Great Hill Equity Partners VII	<1	<1	0
Dover Street IX	<1	<1	1
Fisher Lynch Buyout II	<1	<1	<1
Binary Capital Fund II	<1	<1	<1
Fisher Lynch Venture II	<1	<1	<1
ASF VIII B	<1	<1	<1
Vivo Capital Fund IX	<1	<1	<1
US Venture Partners XII	<1	<1	0
Kelso X	<1	<1	<1
Thoma Bravo XIII-A	<1	<1	<1
Thoma Bravo XIV-A	<1	<1	0
Energy Spectrum VIII	<1	<1	<1
Great Point Partners III	<1	<1	<1
PeakSpan II	<1	<1	<1
Clear Ventures II	<1	<1	<1
Hastings IV-B	<1	<1	<1
Lexington Capital VIII	<1	<1	1
Lexington Capital IX	<1	<1	0
LiveOak Venture II	<1	<1	<1
Weathergage Venture IV	<1	<1	<1
Blackstone Europe V	<1	<1	1
Blackstone Real Estate IX	<1	<1	0
Blackstone Real Estate Europe VI	<1	<1	0
EnCap Energy XI	<1	<1	<1
Insight Equity III	<1	<1	1
Francisco Partners IV-A	1	<1	1
Francisco Partners V	<1	<1	<1
Francisco Partners VI	<1	<1	0
Trident VII	1	<1	1
Trident VIII	<1	<1	0
EnCap Energy X	<1	<1	<1
EnCap Midstream IV	<1	<1	<1
Blackstone Real Estate Partners VIII	<1	<1	1
Subtotal – private investments	<u>31</u>	<u>28</u>	<u>23</u>
Cash and equivalents	<u>3</u>	<u>1</u>	<u>2</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>	<u><u>100%</u></u>



### **Investment Manager Allocation**

Investment managers are given discretion to manage the assets in each portfolio to best achieve investment objectives within the policies and requirements established by the Board of Regents. The objectives and comparative benchmarks are used to evaluate manager performance. The Endowment Management Committee reviews performance and adjusts allocation to investment managers and asset classes in response to current or future anticipated market conditions. Quarterly performance reports are distributed to the Endowment Management Committee.

### **Endowment Payout Policy**

The Endowment Management Committee is responsible for reviewing the income payout rate of the Endowment Fund, which is a balance between current income needs and long-term investment objectives. The Endowment Fund will maintain a payout rate of approximately 4 percent to 5 percent, with any change to this range to be approved by the Board of Regents. The endowment income payout rate for the years ended August 31, 2021, 2020 and 2019, was 4 percent of the average market value for the 12 prior fiscal quarters. If an endowment has been in existence less than 12 quarters, the average is based on the number of quarters in existence. This trailing 12-quarter method is used to smooth large year-over-year changes in market value, thereby allowing the UH System's colleges and departments to more reasonably predict future distributions of endowment income intended to benefit their area.

In the three fiscal years 2019 through 2021, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
University of Houston	\$ 21,751,756	\$ 19,950,305	\$ 17,383,312
UH – Clear Lake	986,030	953,707	903,268
UH – Downtown	1,257,931	1,198,201	1,112,549
UH – Victoria	489,421	477,694	457,745
System-wide endowments	<u>4,681,360</u>	<u>4,595,576</u>	<u>4,501,946</u>
Totals	<u>\$ 29,166,498</u>	<u>\$ 27,175,783</u>	<u>\$ 24,358,820</u>

### **Overview of the Financial Statements**

The financial statements for the fiscal year ended August 31, 2021, are presented comparatively to financial statements issued for the fiscal year ended August 31, 2020. The financial statements have been prepared in accordance with the standards of the GASB, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are (1) the statements of net position, (2) the statements of revenues, expenses and changes in net position and (3) the statements of cash flows. The information contained in the financial statements of the Endowment Fund is incorporated within the System's Combined Annual Financial Report.

The financial operations of the System, and therefore inclusively the Endowment Fund, are considered a business-type (or proprietary fund) activity. The operating activities of the System are financed by tuition and fees, state appropriations, contracts and grants, and auxiliary enterprise revenue. The Endowment Fund is an internally managed pooled-fund and its beneficiaries are internal to the System. The statements of net position report resources held and administered by the System, as described in the previous sections of this

MD&A. These resources are customarily characterized by the existence of a written agreement that affects the degree of management involvement, the programs supported by income earned by the resources and the length of time that the resources are held by the System.

### **Statements of Net Position**

The statements of net position reflect the Endowment Fund's assets and liabilities using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. Unrestricted net position are available to the System for any lawful purpose. Unrestricted net position often has constraints imposed by management, but such constraints can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions. On August 31, 2021, the Endowment Fund's assets totaled \$1.094 billion and liabilities totaled \$37 million, resulting in a net position of \$1.057 billion.

The net position of the Endowment Fund as contributed by the System's components as of August 31, 2021, compared to the corresponding values as of August 31, 2020, and August 31, 2019, were as follows:

	<b>2021</b>	<b>2020</b>	<b>2019</b>
University of Houston	\$ 803,460,608	\$ 597,351,708	\$ 543,252,533
UH – Clear Lake	33,945,631	26,214,690	24,499,798
UH – Downtown	46,824,868	35,323,895	32,093,306
UH – Victoria	16,592,608	12,927,860	12,088,263
System-wide endowments	<u>156,218,276</u>	<u>121,982,504</u>	<u>115,240,781</u>
Totals	<u>\$ 1,057,041,991</u>	<u>\$ 793,800,657</u>	<u>\$ 727,124,681</u>

### ***Variance Analysis-Changes in the Statements of Net Position***

	<b>2021</b>	<b>2020</b>	<b>Change 2021-2020</b>	<b>2019</b>
Total assets	\$ 1,094,032,080	\$ 828,430,533	\$ 265,601,547	\$ 758,219,559
Total liabilities	36,990,089	34,629,876	2,360,213	31,094,878
Restricted, nonexpendable endowments	735,191,126	544,197,392	190,993,734	495,948,109
Restricted, expendable endowments	67,632,780	52,757,644	14,875,136	47,941,171
Unrestricted endowments	<u>254,218,085</u>	<u>196,845,621</u>	<u>57,372,464</u>	<u>183,235,401</u>
Net position	<u>\$ 1,057,041,991</u>	<u>\$ 793,800,657</u>	<u>\$ 263,241,334</u>	<u>\$ 727,124,681</u>

- Total assets: The \$265.6 million increase in fiscal year 2021 is primarily attributable to an increase in the fair value of investments.
- Total liabilities: The \$2.4 million increase in liabilities is primarily attributable to an increase in amounts payable to other System components at fiscal year-end 2021.
- Restricted, nonexpendable endowments: The \$191.0 million increase in restricted nonexpendable endowments is primarily attributable to an increase in the fair value of investments.

- Restricted, expendable endowments: The \$14.9 million increase in restricted expendable endowments is primarily attributable to an increase in the fair value of investments.
- Unrestricted endowments: The \$57.3 million increase is primarily attributable to an increase in the fair value of investments.

### **Statements of Revenues, Expenses and Changes in Net Position**

The Statements of Revenues, Expenses and Changes in Net Position contain information about the additions to, the deductions from, and the resulting net increase or decrease in the fair value of the net position for the fiscal year. During fiscal year 2021, the Endowment Fund received \$34.3 million of gifts and other receipts, interest and investment income of \$13.5 million, and a \$259.5 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2021 were \$44.1 million, including \$29.2 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$6.8 million for gift acquisition and fund raising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$263.2 million for fiscal year 2021.

### ***Variance Analysis-Changes in the Statements of Revenues, Expenses and Changes in Net Position***

	<b>2021</b>	<b>2020</b>	<b>Change 2021-2020</b>	<b>2019</b>
Contributions to endowments	\$ 34,349,600	\$ 20,429,180	\$ 13,920,420	\$ 27,239,780
Net realized and unrealized appreciation	259,452,351	83,460,443	175,991,908	12,021,371
Other non-operating expenses	(44,054,743)	(44,172,635)	117,892	(36,623,036)
Interest and investment income	13,494,126	6,958,988	6,535,138	13,515,193
Increase in net position	<u>\$ 263,241,334</u>	<u>\$ 66,675,976</u>	<u>\$ 196,565,358</u>	<u>\$ 16,153,308</u>

- Contributions to endowments increased \$13.9 million in 2021 as compared to 2020,
- Changes in investment activities included an \$259.5 million net appreciation in the fair value of investments in fiscal year 2021 compared to \$83.5 million net appreciation in fiscal year 2020. This net change fiscal year-over-year is the result of the stock market increase in certain sectors in fiscal year 2021. Interest and investment income increased by \$6.5 million as compared to fiscal year 2020. Fund deductions decreased by \$117,892 from fiscal year 2020 to fiscal year 2021. The Endowment Fund established a tiered payout policy for underwater endowments effective 2016. The institutional advancement fee was approved by the Board of Regents to offset costs associated with gift acquisition and fund raising efforts at the System components. Administrative costs decreased by \$1.9 million in fiscal year 2021 compared to fiscal year 2020. Administrative costs are comprised primarily of investment management fees and consulting fees, and these costs will fluctuate year-over-year as fees are calculated based on the market value of the funds under each firm's advisement.

### **Statements of Cash Flows**

The statements of cash flows explain the changes during the fiscal year in cash and cash equivalents, regardless of whether there are restrictions on their use. The statements of cash flows should be read in conjunction with related disclosures and information in the other financial statements.

### **Capital Assets**

The Endowment Fund does not hold any capitalized assets, such as buildings or furniture and equipment. The Endowment Fund invests in financial instruments which constitutes most of the Endowment Fund's assets. Although the Endowment Fund is generally not prohibited from acquiring tangible physical assets to be held as investments for their appreciation qualities, such assets are typically not acquired or held by the Endowment Fund. Presently, the Endowment Fund holds certain parcels of land, which were received as gifts and are being held for future sale.

### **Debt Administration**

The Endowment Fund does not issue long-term debt. The Endowment Fund is not currently engaged in any long-term financing transactions. The operation and administration of the Endowment Fund is currently structured such that its annual financial obligations and expenses are satisfied through earnings and other fund additions.

### **Economic Outlook**

All sectors outperformed forecasted amounts in first quarter of 2021, the markets rebounded in an equally historic rally in the second quarter of 2021. U.S. equities outperformed broader developed markets. U.S. equities remained up, leading all major global equity markets. Utilities, real estate and consumer staples gained, while energy declined. European equities declined and lagged broader developed markets.

Any questions related to the MD&A or financial statements should be directed to University of Houston, Office of the Treasurer, P.O. Box 988, Houston, Texas 77001-0988.

## **The Basic Financial Statements**

**University of Houston System  
Endowment Fund  
Statements of Net Position  
August 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 33,497,641	\$ 32,632,514
Interest and dividends receivable	585,650	656,976
Receivables for investments sold	561,742	1,070,758
Total current assets	34,645,033	34,360,248
Noncurrent assets:		
Investments	1,059,387,047	794,070,285
Total assets	1,094,032,080	828,430,533
<b>Liabilities</b>		
Current liabilities:		
Payable for investments purchased	1,025,638	435,437
Due to other components	35,964,451	34,194,439
Total liabilities	36,990,089	34,629,876
<b>Net Position</b>		
Restricted for nonexpendable endowments	735,191,126	544,197,392
Restricted for expendable endowments	67,632,780	52,757,644
Unrestricted	254,218,085	196,845,621
Total net position	\$ 1,057,041,991	\$ 793,800,657

# University of Houston System Endowment Fund

## Statements of Revenues, Expenses and Changes in Net Position Years Ended August 31, 2021 and 2020

	2021	2020
<b>Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>	-	-
Operating income	0	0
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment income	13,494,126	6,958,988
Net realized and unrealized appreciation	259,452,351	83,460,443
Other nonoperating expenses	(44,054,743)	(44,172,635)
Total nonoperating revenues	228,891,734	46,246,796
<b>Contributions to Endowments</b>	34,349,600	20,429,180
<b>Change in Net Position</b>	263,241,334	66,675,976
<b>Net Position, Beginning of Year</b>	793,800,657	727,124,681
<b>Net Position, End of Year</b>	\$ 1,057,041,991	\$ 793,800,657

**University of Houston System  
Endowment Fund  
Statements of Cash Flows  
Years Ended August 31, 2021 and 2020**

	<b>2021</b>	<b>2020</b>
<b>Cash Flows From Operating Activities</b>	\$ <u>0</u>	\$ <u>0</u>
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Contributions to endowments	34,349,600	20,429,180
Increase in due to other components	<u>1,770,012</u>	<u>3,289,963</u>
Net cash provided by noncapital and related financing activities	<u>36,119,612</u>	<u>23,719,143</u>
<b>Cash Flows From Capital and Related Financing Activities</b>	<u>0</u>	<u>0</u>
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	2,835,416,728	1,940,422,744
Payments to purchase investments	(2,876,147,664)	(1,950,471,341)
Interest and dividends received on investments	13,566,742	6,957,263
Payments for asset management and stewardship	<u>(8,090,291)</u>	<u>(9,978,197)</u>
Net cash used in investing activities	<u>(35,254,485)</u>	<u>(13,069,531)</u>
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	865,127	10,649,612
<b>Cash and Cash Equivalents, Beginning of Year</b>	<u>32,632,514</u>	<u>21,982,902</u>
<b>Cash and Cash Equivalents, End of Year</b>	<u>\$ 33,497,641</u>	<u>\$ 32,632,514</u>



# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

### 1) Reporting Entity

University of Houston System (the System) is an agency of the State of Texas, established by the State of Texas to provide undergraduate and graduate university instruction, scholarly research and public service in the Houston, Texas area. The System is the State of Texas' only metropolitan higher education system, encompassing four universities and two multi-institution teaching centers. University of Houston System Endowment Fund (the Endowment Fund) is a fund group of the System reporting entity, with the earliest endowment having been established in 1950. The accompanying financial statements present only the Endowment Fund of the System as of August 31, 2021 and 2020, the changes in its financial position and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The Endowment Fund is a fund group that accounts for all of the System's endowment assets pooled together to ensure better management and uniform accountability for those assets. The Endowment Fund provides financial support for the System's students and the System's research endeavors. The Endowment Fund is presently comprised of approximately 1,975 restricted and unrestricted endowment funds located in the System's four universities and multi-institution teaching centers. Restricted endowment funds are funds with respect to which a donor or other outside entity has stipulated that the principal be maintained inviolate and in perpetuity, and that only the income from the investments is available for expenditure. Unrestricted endowment funds consist of funds for which the donor did not impose any restriction as to their use, as well as funds that are designated by the System's Board of Regents, rather than the donor, to function as endowment funds. The principal of these funds may be expended at the discretion of the System's Board of Regents.

### 2) Summary of Significant Accounting Policies

#### (a) General

All financial accounting records of the Endowment Fund are maintained by the System's Office of the Associate Vice Chancellor for Finance in accordance with accounting principles generally accepted in the United States of America for colleges and universities.

#### (b) Basis of Accounting and Presentation

The Endowment Fund is reported as a single-purpose business-type activity entity. The financial statements of the Endowment Fund have been prepared using the economic resources measurement focus and accrual basis of accounting whereby all revenues are recorded when earned and all expenses are recorded when they are incurred.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements

August 31, 2021 and 2020

**(c) Cash and Cash Equivalents**

The Endowment Fund believes the carrying value of cash and temporary investments approximates fair value. The Endowment Fund considers investments purchased with a maturity of three months or less from the statements of net position date to be cash equivalents.

**(d) Investments**

In accordance with GASB No. 72, *Fair Value Measurement and Application*, investments are recorded at fair value. Fair value is based on published closing market prices on the last trading day of the fiscal year. In the case of pooled funds or mutual funds, the fair value is determined as the number of units or shares held in the fund multiplied by the price per unit or share as publicly quoted. Investments in which a public market does not exist are based on the Endowment Fund's ownership interest in the net asset value (NAV) of each fund as reported by the fund managers. When fund managers do not provide the NAV of each fund at fiscal year-end, the fair value is estimated by the System using the most recent statement and adding contributions and subtracting the distributions during the intervening period. In accordance with GASB No. 52, *Land and Other Real Estate Held as Investments by Endowments*, land and other real estate held as investments are recorded at fair value. Chapter 163 of the Texas Property Code (also cited as the *Uniform Prudent Management of Institutional Funds Act*) grants the System the authority to spend net appreciation.

Because of inherent uncertainties of valuations, management's and fund managers' estimates of fair value may differ from the values that would have been used had a ready market existed.

Investments received as gifts are initially recorded at estimated fair value based on appraised values or broker closing prices for stocks at the date of the gift.

Short-term investments comprise U.S. Government obligations and corporate obligations with a maturity date of less than one year as of the statements of net position date.

**(e) Net Position**

The Endowment Fund's net position is classified as follows:

*Restricted for nonexpendable endowments:* Net position for restricted nonexpendable endowment funds are maintained permanently by the System following the externally imposed stipulations.

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*Restricted for expendable endowments:* Net position for restricted expendable endowment funds are those that may be expended for either a stated purpose or for a general purpose subject to externally imposed stipulations.

*Unrestricted:* Net position for unrestricted endowment funds are donated by third parties or created internally by the System and represent resources that are available without restrictions to the System.

When both restricted and unrestricted resources are available for use, it is the Endowment Fund's policy to use restricted resources first, then unrestricted resources as they are needed.

**(f) Revenue Recognition**

Contributions to the Endowment Fund and transfers-in from other funds, such as distribution payouts returned by beneficiaries for reinvestment, are recognized as additions to the Endowment Fund's assets. Dividend income is recorded as income on the date the stock traded ex-dividend. Interest is recognized on fixed-income investments on the accrual basis.

Net realized and unrealized appreciation represents both realized and unrealized gains and losses on investments. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gain or loss is computed as the difference between the cost of marketable securities sold and the sale price. The cost of marketable securities sold is determined on specific identification of investments sold. Realized gain is recorded as of the trade date regardless of when the transaction is settled. Unrealized gains or losses are calculated based on the changes in investment fair value between the beginning and end of the fiscal year for investments held since the beginning of the year, or as the difference between the fair value at end-of-year and the purchase cost for investments purchased during the year. Unrealized gains (losses) are determined and recorded as of the fiscal year-end.

The Endowment Fund does not currently earn or incur operating revenues and expenses.

**(g) Distribution Payout**

Effective September 1, 2018, the System's Board of Regents adopted an endowment payout policy whereby the payout rate is based on a percentage of the fiscal year-end net position averaged over a 12-quarter rolling period. For the fiscal years 2021 and 2020, the payout rate was 4 percent applied to the endowments' average net position balances for the preceding 12 quarters. If an endowment was in existence less than 12 quarters, the average was based

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

on the number of quarters the endowment was in existence. Effective May 1, 2009, no endowment receives a pro rata income distribution from current fiscal year contributions. The payout is calculated and recorded at the end of each fiscal year. Actual endowment return earned in excess of distributions is reinvested. For years actual endowment return is less than the distribution payout, the shortfall is covered by realized returns from prior years.

### **(h) Institutional Advancement Assessment**

The System will annually assess a reasonable fee against the earnings of specified endowment funds to offset expenses associated with gift acquisition and fundraising at the component universities. The System's Board of Regents shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year-end market value averaged over rolling 12 quarter periods. For the fiscal years 2021 and 2020, the assessment fee was 1.2 percent and 1.3 percent, respectively. If an endowment has been in existence less than 12 quarters, the average will be based on the number of quarters in existence.

The assessment is made at the end of each fiscal year to make funds available for the System's institutional advancement activities in the following fiscal year. The total amount assessed for the years ended August 31, 2021 and 2020, was \$6,797,953 and \$7,018,656, respectively.

### **(i) Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues, expenses and other changes in net position during the reporting period. Actual results could differ from those estimates.

### **(j) Reclassifications**

Certain reclassifications have been made to the 2020 financial statements to conform to the 2021 financial statement presentation. These reclassifications had no effect on the change in net position.

## **3) Authorized Investments**

The System's Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the Endowment Fund. The System retains the services of a custodial financial institution under a master trust custodian agreement, as well as the services of independent

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The System's Board of Regents has adopted a written investment policy, including investment manager guidelines for each of the separately invested accounts of the Endowment Fund, regarding the investment of endowment assets as defined in the System's Investment Policies. The primary long-term financial objective for the Endowment Fund is to preserve the real (inflation adjusted) purchasing power of endowment assets when measured over rolling periods of at least five years. The medium term objective is to outperform each of the capital markets in which the endowment assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer.

#### 4) Derivatives

Derivatives are investment products that may be a security or contract that derives its value from another security, currency, commodity or index, regardless of the source of funds used. The Endowment Fund did not directly invest in derivatives during the years ended August 31, 2021 or 2020, and held no direct derivative instruments at August 31, 2021 or 2020.

#### 5) Cash and Investments

##### *(a) Composition of Cash and Cash Equivalents*

Cash and cash equivalents consist of money market funds and securities maturing within three months totaling \$33,497,641 and \$32,632,514 at August 31, 2021 and 2020, respectively. The money market funds are invested in commercial paper, certificates of deposit, repurchase agreements, corporate notes, time deposits and similar short-term investments considered generally acceptable and prudent for money market funds.

Cash and cash equivalents included in the statements of net position consist of the items reported below:

	<b>2021</b>	<b>2020</b>
Cash	\$ 815,665	\$ 4,010,518
Money market funds	32,681,976	28,621,996
Total cash and cash equivalents	\$ 33,497,641	\$ 32,632,514

##### *(b) Reconciliation of Cash and Investments to Statements of Net Position*

Total cash and investments at August 31, 2021 and 2020, are as follows.

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## Notes to Basic Financial Statements August 31, 2021 and 2020

Type of Security	Fair Value	
	2021	2020
Cash	\$ 815,665	\$ 4,010,518
Money market funds	32,681,976	28,621,996
U.S. Government obligations	29,517,262	37,159,607
U.S. Government agencies	6,481,117	11,648,336
Fixed income (non-government/agency)	32,448,810	44,936,422
U.S. equity securities	257,949,088	179,809,680
Global equities excluding U.S.	198,737,787	152,069,650
Hedged equity funds	19,237,644	15,885,300
Inflation hedge funds (including REITs)	31,147,643	22,929,382
Absolute return funds	42,067,944	48,781,637
Private equity investments	441,799,752	280,775,271
Real estate	-	75,000
Total investments	1,092,884,688	826,702,799
Less cash and cash equivalents	(33,497,641)	(32,632,514)
Total non-current investments	<u>\$ 1,059,387,047</u>	<u>\$ 794,070,285</u>

**(c) Investment Maturities**

As of August 31, 2021 and 2020, the Endowment Fund had the following investments and weighted-average maturities:

Investment Type	2021		2020	
	Fair Value	Weighted-average Maturity (Years)	Fair Value	Weighted-average Maturity (Years)
U.S. Government obligations <sup>(1)</sup>	\$ 29,517,262	2.54	\$ 37,159,607	3.54
U.S. Government agencies <sup>(1)</sup>	6,481,117	22.20	11,648,336	22.95
U.S. fixed income (non-government/agency) <sup>(1)</sup>	32,448,810	11.41	44,936,422	7.85
Equity, mutual funds, other investments	<u>1,024,437,499</u>	Untenured	<u>732,958,434</u>	Untenured
Total investments at fair value	<u>\$ 1,092,884,688</u>		<u>\$ 826,702,799</u>	
Weighted-average maturity of tenured portfolio		8.6		8.0

(1) Includes tenured securities classified as cash equivalents and short-term investments.

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**(d) *Asset Selection and Allocation***

The Endowment Fund's Statement of Investment Objectives and Policies governs the overall allocation of endowment funds to asset classes and considerations of limits to investment risk exposures. Allocation of funds to asset classes is based on expected returns, risk levels, desired risk diversification, interaction of various asset classes, and income generation and capital appreciation potentials of each asset class. The market value of investments in each asset class is maintained within an approved range of ratios to the market value of the Endowment Fund's total investments, except for minor deviations due to fluctuations in market value. The Endowment Management Committee monitors asset allocation targets and limits and may authorize the reallocation of funds among investment managers. The Endowment Fund currently invests in a broad array of asset classes in order to diversify the portfolio's risk. Marketable securities, such as domestic or international common stocks, domestic bonds, equity money market funds, and cash equivalents comprise 52 percent and 55 percent of the overall investment portfolio (portfolio) at the end of fiscal years 2021 and 2020, respectively. Marketable alternative investments (*i.e.*, inflation hedge funds, commingled funds invested in marketable securities, absolute return and hedged-equity funds) represent 8 percent and 11 percent of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 40 percent and 34 percent of the portfolio on a funded basis at the end of the fiscal years ended 2021 and 2020, respectively. The Endowment Fund's overall investment risk is diversified by asset class and within each class by strategy, economic sector, geography, industry, market capitalization, manager and with regard to non-marketable alternatives, by vintage year as well. Such diversification is aimed at managing the risks specifically associated with any single strategy, economic sector, geographic area, industry, vintage year or manager.

**(e) *Investment Related Risks***

*Custodial Credit Risk* – Custodial credit risk for deposits is the risk that, in the event of failure of a depository financial institution, the Endowment Fund will not be able to recover its deposits. Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the Endowment Fund will not be able to recover the value of its investment or collateral securities that may be in the possession of another party. Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the System and the custodian pursuant to a written agreement approved by the Board of Regents. As of August 31, 2021 and 2020, the System did not have a securities-lending agreement with its custodian. Managers may not enter into securities-lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in commingled vehicles,

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the Board of Regents cannot dictate whether or not the manager will engage in securities lending. Therefore, the System and its investment consultant make every effort either to avoid commingled investments, or to otherwise limit investment to those managers who will not engage in securities lending. The limited partnerships of marketable and non-marketable alternative investments are excluded from this limitation. At August 31, 2021 and 2020, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution was \$562,027,931 and \$402,803,326, respectively. The third-party custodian operates its business world-wide and, at August 31, 2021 and 2020, held risk insurance contracts with various local and foreign insurance organizations providing coverage for loss due to theft, fraud, and damage to securities while in the custodian's custody; loss of securities while in transit; property damage; and, loss due to business interruption, acts of terrorism, officer negligence, and general liability. The insurance coverage limits ranged from \$1,000,000 to \$500,000,000. The coverage did not protect against market risks and fluctuations associated with market investments.

At August 31, 2021 and 2020, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$497,359,116 and \$391,266,959, respectively. These investments, excluding real estate valued at \$0 and \$75,000 at August 31, 2021 and 2020, respectively, were under various custodian agreements between the investment managers and the investment funds or limited partnerships in which the Endowment Fund is invested. The investments are subject to custodial risks associated with those independent investment managers, and to market risks and fluctuations associated with market investments. The System controls these risks through its credit and concentration risk policies as described in the credit risk and concentration of credit risk paragraph below.

*Interest Rate Risk* – Interest rate risk is the risk that changes in market interest rates will adversely affect the value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its value to changes in market interest rates. The System's investment policy, by way of the investment manager guidelines, requires the weighted average duration of the portfolio should remain in a range of a minimum of 90 percent and a maximum of 110 percent of the Barclays Aggregate Bond Index for active fixed income managers in which a separate account structure exists. The System's investment policy is driven primarily by the goal to preserve the long-term real (inflation adjusted) purchasing power of endowment assets while achieving short-term maximum earnings with an acceptable level of risk. In order to balance these two primary goals, the Board of Regents is closely involved in managing the exposure to declines in investment fair value and earnings.

*Credit Risk and Concentration of Credit Risk* – Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization (NRSRO).



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Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, and amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. In accordance with the System's investment policy and manager guidelines, where applicable, investments in securities within the fixed income allocation of the portfolio must have an average portfolio credit quality of "AA" or better, although active managers may choose to hold select investment grade securities with lower ratings. Securities should be readily marketable and liquid. The investment manager guidelines, where applicable, limit the amount each active manager may invest in any one issuer.

Other than U.S. Government securities (including agency securities), no security may be purchased so that it will constitute more than 5 percent of the market value of the portfolio; however, obligations issued or guaranteed by the full faith and credit of the U.S. Government may be held without limitation. The System's endowment funds also include an allocation to alternative investments, which by their nature, include higher levels of risk, including credit and concentration of credit risk, with the expectation of higher returns relative to traditional equities and fixed income securities. The investment policy does not specify limits as to credit quality or concentration for alternatives as these investments may include highly concentrated positions and may include investing in companies that are either privately held or in financial distress.

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2021, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Note	1.75%	06/30/2022	\$ 11,785,774	NA	1.08%
U S Treasury Note	0.13%	10/15/2023	448,978	NA	0.04%
U S Treasury Note	0.13%	01/15/2024	3,984,520	NA	0.36%
U S Treasury Note	0.13%	01/31/2023	6,148,586	NA	0.56%
U S Treasury Note	0.38%	01/31/2026	2,011,318	NA	0.18%
U S Treasury Note	1.25%	04/30/2028	506,955	NA	0.05%
U S Treasury Note	1.63%	05/15/2031	587,721	NA	0.05%
U S Treasury Note	0.25%	06/15/2024	1,704,784	NA	0.16%
U S Treasury Note	1.25%	08/15/2031	2,338,626	NA	0.21%
Fhlmc Pool #G0-1837	5.00%	07/01/2035	19,064	NA	0.00%
Fhlmc Pool #G0-8588	4.00%	05/01/2044	50,482	NA	0.00%
Fhlmc Pool #G0-8615	3.50%	11/01/2044	20,129	NA	0.00%
Fhlmc Pool #G0-8667	3.50%	09/01/2045	165,006	NA	0.02%
Fhlmc Pool #G0-8698	3.50%	03/01/2046	99,414	NA	0.01%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fhlmc Pool #G0-8699	4.00%	03/01/2046	\$ 169,567	NA	0.02%
Fhlmc Pool #G0-8681	3.50%	12/01/2045	363,550	NA	0.03%
Fhlmc Pool #G0-8687	3.50%	01/01/2046	533,760	NA	0.05%
Fhlmc Pool #G0-8732	3.00%	11/01/2046	586,902	NA	0.05%
Fhlmc Pool #G0-8707	4.00%	05/01/2046	240,665	NA	0.02%
Fhlmc Pool #G0-8747	3.00%	02/01/2047	561,006	NA	0.05%
Fhlmc Pool #G1-8561	3.00%	07/01/2030	8,695	NA	0.00%
Fhlmc Pool #G6-7702	4.00%	01/01/2047	827,054	NA	0.08%
Fhlmc Pool #G6-0024	3.50%	05/01/2043	89,862	NA	0.01%
Fnma Pool #0254903	5.00%	10/01/2033	84,012	NA	0.01%
Fnma Pool #0555330	5.50%	04/01/2033	51,575	NA	0.00%
Fnma Pool #0Ah3384	3.50%	01/01/2041	450,801	NA	0.04%
Fnma Pool #0A10160	4.50%	05/01/2041	101,456	NA	0.01%
Fnma Pool #0A11697	4.00%	10/01/2041	11,531	NA	0.00%
Fnma Pool #0A13519	4.50%	11/01/2041	14,261	NA	0.00%
Fnma Pool #0A13322	4.00%	02/01/2043	15,785	NA	0.00%
Fnma Pool #0A13802	3.00%	02/01/2028	100,017	NA	0.01%
Fnma Pool #0A14911	3.00%	10/01/2027	44,287	NA	0.00%
Fnma Pool #0A17306	4.50%	09/01/2042	55,094	NA	0.01%
Fnma Pool #0A17521	5.00%	06/01/2039	359,365	NA	0.03%
Fnma Pool #0A17767	4.50%	06/01/2044	174,825	NA	0.02%
Fnma Pool #0A19578	4.00%	06/01/2045	22,958	NA	0.00%
Fnma Pool #0A18383	4.50%	10/01/2045	28,084	NA	0.00%
Fnma Pool #0As5696	3.50%	08/01/2045	38,490	NA	0.00%
Fnma Pool #0725231	5.00%	02/01/2034	13,811	NA	0.00%
Fnma Pool #0725690	6.00%	08/01/2034	24,758	NA	0.00%
Fnma Pool #0725704	6.00%	08/01/2034	27,899	NA	0.00%
Fnma Pool #0725773	5.50%	09/01/2034	89,636	NA	0.01%
Fnma Pool #0735925	5.00%	10/01/2035	103,741	NA	0.01%
Fnma Pool #0745428	5.50%	01/01/2036	59,111	NA	0.01%
Fnma Pool #0Bm1909	4.00%	02/01/2045	318,417	NA	0.03%
Fnma Pool #0995112	5.50%	07/01/2036	24,090	NA	0.00%
Fnma Pool #0Ma3088	4.00%	07/01/2047	88,557	NA	0.01%
Fnma Pool #0Ad0198	5.50%	09/01/2038	31,383	NA	0.00%
Fnma Pool #0Ad7128	4.50%	07/01/2040	79,446	NA	0.01%
Fnma Pool #0Ae0698	4.50%	12/01/2040	10,564	NA	0.00%
Fnma Pool #0Ae0949	4.00%	02/01/2041	77,486	NA	0.01%
Gnma Ii Pool #0Ma3663	3.50%	05/20/2046	175,762	NA	0.02%
Gnma Ii Pool #0005056	5.00%	05/20/2041	43,539	NA	0.00%

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Gnma Ii Pool #0005116	5.00%	07/20/2041	\$ 25,220	NA	0.00%
Abbvie Inc	2.85%	05/14/2023	93,356	BBB+	0.01%
Apple Inc	0.70%	02/08/2026	552,303	AA+	0.05%
Baker Hughes A Ge Co Llc / Bak	3.34%	12/15/2027	314,446	A-	0.03%
Bank Of America Corp	3.42%	12/20/2028	1,103,972	A-	0.10%
Bank Of America Corp	1.92%	10/24/2031	607,532	A-	0.06%
Bank 2021-Bnk31 Bn31 A4	2.04%	02/15/2054	646,854	AAA	0.06%
Bank 2018-Bnk12 Bn12 As	4.49%	05/15/2061	392,064	AAA	0.04%
Cvs Health Corp	4.30%	03/25/2028	237,232	BBB	0.02%
California St	4.60%	04/01/2038	440,265	AA-	0.04%
Capital One Prime Auto Re 1 A3	2.51%	11/15/2023	454,488	AAA	0.04%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	201,040	AAA	0.02%
Citigroup Inc	3.98%	03/20/2030	477,036	BBB+	0.04%
Citigroup Inc	3.35%	04/24/2025	426,320	BBB+	0.04%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	313,535	AAA	0.03%
Costco Wholesale Corp	1.60%	04/20/2030	625,584	A+	0.06%
Cummins Inc	0.75%	09/01/2025	557,850	A+	0.05%
Dell International Llc / Emc C Eastern Energy Gas Holdings Ll	4.90%	10/01/2026	427,931	BBB-	0.04%
	2.50%	11/15/2024	612,940	A	0.06%
Expedia Group Inc	2.95%	03/15/2031	1,058,502	BBB-	0.10%
General Electric Co	3.63%	05/01/2030	730,905	BBB+	0.07%
General Motors Financial Co In	2.70%	08/20/2027	699,634	BBB	0.06%
Gm Financial Consumer Aut 4 A3	3.21%	10/16/2023	339,891	AAA	0.03%
Goldman Sachs Group Inc/The	4.22%	05/01/2029	526,760	BBB+	0.05%
Goldman Sachs Group Inc/The	2.60%	02/07/2030	583,845	BBB+	0.05%
Healthpeak Properties Inc	2.88%	01/15/2031	465,208	BBB+	0.04%
Home Depot Inc/The	0.90%	03/15/2028	165,286	A	0.02%
Honda Auto Receivables 20 2 A3	2.52%	06/21/2023	175,902	NA	0.02%
Hyundai Auto Receivables T B C	2.44%	05/15/2024	170,660	AAA	0.02%
Intel Corp	1.60%	08/12/2028	447,701	NA	0.04%
Jpmorgan Chase & Co	4.01%	04/23/2029	964,682	A-	0.09%
Jpmorgan Chase & Co	2.07%	06/01/2029	552,450	A-	0.05%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Kohl'S Corp	3.38%	05/01/2031	\$ 1,290,922	BBB-	0.12%
Marathon Oil Corp	4.40%	07/15/2027	1,028,691	BBB-	0.09%
Marriott International Inc/Md	4.63%	06/15/2030	1,333,350	BBB-	0.12%
Metlife Inc	3.00%	03/01/2025	460,883	A-	0.04%
Morgan Stanley Bank Of C32 A4	3.72%	12/15/2049	1,402,657	NA	0.13%
Morgan Stanley Capital I L5 A4	2.73%	05/15/2054	1,323,390	AAA	0.12%
Morgan Stanley	3.63%	01/20/2027	316,743	BBB+	0.03%
Morgan Stanley Bank Of C29 A4	3.33%	05/15/2049	701,103	NA	0.06%
New York City Ny Transitional	3.55%	08/01/2028	520,042	AAA	0.05%
Phillips 66 Partners Lp	3.75%	03/01/2028	218,540	BBB	0.02%
Simon Property Group Lp	2.20%	02/01/2031	698,110	A-	0.06%
Southern California Edison Co	3.50%	10/01/2023	110,704	A-	0.01%
Southern California Edison Co	4.20%	03/01/2029	130,335	A-	0.01%
Southwest Airlines Co	5.13%	06/15/2027	1,034,804	BBB	0.09%
Sysco Corp	5.95%	04/01/2030	696,163	BBB-	0.06%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	569,601	NA	0.05%
Toyota Auto Receivables 2 B A3	2.96%	09/15/2022	50,187	AAA	0.00%
United Airlines 2018-1 Class A	3.50%	09/01/2031	140,955	NA	0.01%
United Airlines 2016-1 Class A	3.10%	01/07/2030	315,987	NA	0.03%
Viatis Inc 144A	1.65%	06/22/2025	137,182	BBB-	0.01%
Utah St	4.55%	07/01/2024	139,339	AAA	0.01%
Verizon Communications Inc	1.50%	09/18/2030	221,867	BBB+	0.02%
Verizon Communications Inc	2.55%	03/21/2031	1,260,748	BBB+	0.12%
Vmware Inc	3.90%	08/21/2027	1,042,204	BBB-	0.10%
Vornado Realty Lp	2.15%	06/01/2026	747,389	BBB-	0.07%
Wfrbs Commercial Mortga C12 As	3.56%	03/15/2048	623,754	AAA	0.06%
Wfrbs Commercial Mortga C13 As	3.35%	05/15/2045	51,677	NA	0.00%
Oracle Corp	1.90%	09/15/2021	515,309	BBB+	0.05%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2020, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Note	1.63%	06/30/2021	\$ 1,087,932	NA	0.13%
U S Treasury Note	2.13%	06/30/2021	4,598,169	NA	0.56%
U S Treasury Bond	4.50%	02/15/2036	83,209	NR	0.01%
U S Treasury Bond	4.50%	05/15/2038	717,835	NR	0.09%
U S Treasury Note	2.75%	02/15/2028	442,138	NA	0.05%
U S Treasury Note	2.63%	01/31/2026	1,073,439	NA	0.13%
U S Treasury Note	2.38%	02/29/2024	2,561,951	NA	0.31%
U S Treasury Note	2.38%	05/15/2029	2,057,730	NA	0.25%
U S Treasury Note	2.13%	12/31/2021	6,670,625	NA	0.81%
U S Treasury Note	1.63%	05/15/2026	407,326	NA	0.05%
U S Treasury Note	2.75%	11/15/2023	4,968,675	NA	0.60%
U S Treasury Note	2.38%	05/15/2027	253,582	NA	0.03%
U S Treasury Note	2.13%	06/30/2022	621,678	NA	0.08%
U S Treasury Note	1.75%	11/15/2029	516,817	NA	0.06%
U S Treasury Note	1.50%	02/15/2030	533,283	NA	0.06%
U S Treasury Note	0.63%	05/15/2030	994,380	NA	0.12%
U S Treasury Note	0.25%	06/30/2025	1,574,748	NA	0.19%
U S Treasury Note	0.13%	06/30/2022	2,999,190	NA	0.36%
U S Treasury Note	0.13%	07/15/2023	4,996,900	NA	0.60%
Pnc Bank Na	2.15%	04/29/2021	1,051,492	A	0.13%
Truist Financial Corp	2.05%	05/10/2021	1,061,319	A-	0.13%
AT&T Inc	2.30%	06/01/2027	881,028	BBB	0.11%
Abbvie Inc	2.85%	05/14/2023	887,922	BBB+	0.11%
Ally Auto Receivables Tru 2 A2	2.34%	07/15/2022	296,742	AAA	0.04%
Alphabet Inc	1.10%	08/15/2030	867,399	AA+	0.10%
Apple Inc	2.30%	05/11/2022	898,371	AA+	0.11%
Baker Hughes A Ge Co Llc / Bak	3.34%	12/15/2027	485,615	A-	0.06%
Bank Of America Corp	2.88%	04/24/2023	606,721	A-	0.07%
Bank Of America Corp	3.42%	12/20/2028	1,744,751	A-	0.21%
Bank 2018-Bnk12 Bn12 As	4.49%	05/15/2061	397,038	AAA	0.05%
Bmw Vehicle Owner Trust 2 A A3	2.35%	04/25/2022	109,769	NA	0.01%
Cigna Corp	4.38%	10/15/2028	1,665,025	A-	0.20%
Cvs Health Corp	4.30%	03/25/2028	971,231	BBB	0.12%
California St	4.60%	04/01/2038	700,698	AA-	0.08%
Capital One Financial Corp	3.20%	01/30/2023	697,013	BBB	0.08%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Capital One Prime Auto Re 1 A3	2.51%	11/15/2023	\$ 880,889	AAA	0.11%
Carmax Auto Owner Trust 20 1 B	2.54%	09/15/2022	428,404	NA	0.05%
Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	322,912	NA	0.04%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	204,950	AAA	0.02%
Citigroup Inc	3.98%	03/20/2030	760,488	BBB+	0.09%
Citigroup Inc	3.35%	04/24/2025	680,069	BBB+	0.08%
Comcast Corp	4.15%	10/15/2028	879,222	A-	0.11%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	333,193	AAA	0.04%
Costco Wholesale Corp	1.60%	04/20/2030	998,493	A+	0.12%
Cummins Inc	0.75%	09/01/2025	871,984	A+	0.11%
Dell International Llc / 144A	4.90%	10/01/2026	650,843	BBB-	0.08%
Dominion Energy Gas Holdings L	2.50%	11/15/2024	968,721	BBB+	0.12%
Exelon Generation Co Llc	3.40%	03/15/2022	265,473	BBB+	0.03%
Ford Credit Auto Lease T A A2A	2.84%	09/15/2021	73,518	AAA	0.01%
Gm Financial Automobile Le 2 C	3.50%	04/20/2022	221,366	AA+	0.03%
Gm Financial Consumer Aut 4 A3	3.21%	10/16/2023	1,000,498	AAA	0.12%
Goldman Sachs Group Inc/The	3.85%	01/26/2027	809,102	BBB+	0.10%
Goldman Sachs Group Inc/The	2.91%	07/24/2023	693,555	BBB+	0.08%
Hewlett Packard Enterprise Co	2.25%	04/01/2023	828,528	BBB	0.10%
Honda Auto Receivables 20 1 A2	2.75%	09/20/2021	165,344	AAA	0.02%
Honda Auto Receivables 20 2 A3	2.52%	06/21/2023	312,951	NA	0.04%
Hyundai Auto Receivables B A3	1.77%	01/18/2022	94,880	NR	0.01%
Hyundai Auto Receivables T B C	2.44%	05/15/2024	172,764	AAA	0.02%
Jpmorgan Chase & Co	3.30%	04/01/2026	847,737	A-	0.10%
Jpmorgan Chase & Co	3.54%	05/01/2028	1,479,239	A-	0.18%
Metlife Inc	3.00%	03/01/2025	737,472	A-	0.09%
Morgan Stanley Bank Of C32 A4	3.72%	12/15/2049	1,410,721	NA	0.17%
Morgan Stanley	3.63%	01/20/2027	502,656	BBB+	0.06%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Morgan Stanley Bank Of C29 A4	3.33%	05/15/2049	\$ 716,463	NA	0.09%
New York City Ny Transitional	3.55%	08/01/2028	825,297	AAA	0.10%
Newmont Corp	3.70%	03/15/2023	87,442	BBB	0.01%
Newmont Corp	2.25%	10/01/2030	825,266	BBB	0.10%
Nissan Auto Lease Trust 2 A A3	2.76%	03/15/2022	890,454	AAA	0.11%
Oracle Corp	1.90%	09/15/2021	812,616	A	0.10%
Pacific Gas And Electric Co	1.75%	06/16/2022	712,286	BBB-	0.09%
Phillips 66 Partners Lp	3.75%	03/01/2028	325,413	BBB	0.04%
Principal Financial Group Inc	3.40%	05/15/2025	500,391	A-	0.06%
Progress Energy Inc	3.15%	04/01/2022	342,157	BBB+	0.04%
Prologis Lp	1.25%	10/15/2030	853,400	A-	0.10%
Regions Financial Corp	3.80%	08/14/2023	735,811	BBB+	0.09%
Southern California Edison Co	3.50%	10/01/2023	177,593	A-	0.02%
Southern California Edison Co	4.20%	03/01/2029	208,076	A-	0.03%
Starbucks Corp	2.25%	03/12/2030	201,679	BBB+	0.02%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	807,358	NA	0.10%
Toyota Auto Receivables 2 B A3	2.96%	09/15/2022	501,516	AAA	0.06%
United Airlines 2018-1 Class A	3.50%	09/01/2031	199,596	NA	0.02%
United Airlines 2016-1 Class A	3.10%	01/07/2030	447,307	NA	0.05%
Upjohn Inc 144A	1.65%	06/22/2025	215,765	BB	0.03%
Utah St	4.55%	07/01/2024	306,244	AAA	0.04%
Verizon Communications Inc	2.63%	08/15/2026	865,219	BBB+	0.10%
Vulcan Materials Co	3.90%	04/01/2027	388,187	BBB+	0.05%
Wfrbs Commercial Mortga C12 As	3.56%	03/15/2048	627,936	AAA	0.08%
Wfrbs Commercial Mortga C13 As	3.35%	05/15/2045	52,142	NA	0.01%
Wells Fargo & Co	3.07%	01/24/2023	941,495	BBB+	0.11%
World Omni Auto Receivable B	1.73%	07/15/2023	451,206	AA+	0.05%
Fhlmc Pool #G0-1837	5.00%	07/01/2035	25,241	NA	0.00%
Fhlmc Pool #G1-4225	4.00%	08/01/2026	13,338	NA	0.00%
Fhlmc Pool #G1-4496	3.00%	06/01/2027	421,624	NA	0.05%
Fhlmc Pool #G0-8588	4.00%	05/01/2044	87,842	NA	0.01%
Fhlmc Pool #G0-8615	3.50%	11/01/2044	38,599	NA	0.00%
Fhlmc Pool #G0-8667	3.50%	09/01/2045	322,930	NA	0.04%

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fhlmc Pool #G0-8698	3.50%	03/01/2046	\$ 193,722	NA	0.02%
Fhlmc Pool #G0-8699	4.00%	03/01/2046	292,561	NA	0.04%
Fhlmc Pool #G0-8681	3.50%	12/01/2045	685,839	NA	0.08%
Fhlmc Pool #G0-8687	3.50%	01/01/2046	1,023,810	NA	0.12%
Fhlmc Pool #G0-8732	3.00%	11/01/2046	1,073,575	NA	0.13%
Fhlmc Pool #G0-8707	4.00%	05/01/2046	440,209	NA	0.05%
Fhlmc Pool #G0-8747	3.00%	02/01/2047	930,252	NA	0.11%
Fhlmc Pool #G1-8561	3.00%	07/01/2030	12,787	NA	0.00%
Fhlmc Pool #G6-7702	4.00%	01/01/2047	1,185,675	NA	0.14%
Fhlmc Pool #G6-0024	3.50%	05/01/2043	150,995	NA	0.02%
Fnma Pool #0254903	5.00%	10/01/2033	111,701	NA	0.01%
Fnma Pool #0555330	5.50%	04/01/2033	69,216	NA	0.01%
Fnma Pool #0Ah3384	3.50%	01/01/2041	743,551	NA	0.09%
Fnma Pool #0Ah3431	3.50%	01/01/2026	51,164	NA	0.01%
Fnma Pool #0A10160	4.50%	05/01/2041	154,740	NA	0.02%
Fnma Pool #0A11697	4.00%	10/01/2041	18,611	NA	0.00%
Fnma Pool #0A13519	4.50%	11/01/2041	21,921	NA	0.00%
Fnma Pool #0A13322	4.00%	02/01/2043	26,546	NA	0.00%
Fnma Pool #0A13802	3.00%	02/01/2028	145,937	NA	0.02%
Fnma Pool #0A14911	3.00%	10/01/2027	65,984	NA	0.01%
Fnma Pool #0A17306	4.50%	09/01/2042	80,049	NA	0.01%
Fnma Pool #0A17521	5.00%	06/01/2039	477,678	NA	0.06%
Fnma Pool #0A17767	4.50%	06/01/2044	276,184	NA	0.03%
Fnma Pool #0A19578	4.00%	06/01/2045	37,152	NA	0.00%
Fnma Pool #0A18383	4.50%	10/01/2045	44,640	NA	0.01%
Fnma Pool #0As5696	3.50%	08/01/2045	78,169	NA	0.01%
Fnma Pool #0725231	5.00%	02/01/2034	18,651	NA	0.00%
Fnma Pool #0725690	6.00%	08/01/2034	31,891	NA	0.00%
Fnma Pool #0725704	6.00%	08/01/2034	37,219	NA	0.00%
Fnma Pool #0725773	5.50%	09/01/2034	118,278	NA	0.01%
Fnma Pool #0735925	5.00%	10/01/2035	141,536	NA	0.02%
Fnma Pool #0745428	5.50%	01/01/2036	79,529	NA	0.01%
Fnma Pool #0Bm1909	4.00%	02/01/2045	486,823	NA	0.06%
Fnma Pool #0995112	5.50%	07/01/2036	31,770	NA	0.00%
Fnma Pool #0Ma3088	4.00%	07/01/2047	180,821	NA	0.02%
Fnma Pool #0Ma3384	4.00%	04/01/2048	499,537	NA	0.06%
Fnma Pool #0Ad0198	5.50%	09/01/2038	41,854	NA	0.01%
Fnma Pool #0Ad7128	4.50%	07/01/2040	116,275	NA	0.01%
Fnma Pool #0Ae0698	4.50%	12/01/2040	15,557	NA	0.00%



# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fnma Pool #0Ae0949	4.00%	02/01/2041	\$ 124,981	NA	0.02%
Fnma Pool #0Ae0988	4.00%	09/01/2025	19,077	NA	0.00%
Gnma Ii Pool #0Ma3663	3.50%	05/20/2046	307,563	NA	0.04%
Gnma Ii Pool #0005056	5.00%	05/20/2041	60,682	NA	0.01%
Gnma Ii Pool #0005116	5.00%	07/20/2041	34,047	NA	0.00%

**(f) *Alternative Investments***

Investments reported at fair value of approximately \$497,356,890 and \$391,266,959, as of August 31, 2021 and 2020, respectively, are not publicly traded and have been estimated by management and fund managers in the absence of readily available market values. These funds are invested with external investment managers, generally in commingled funds, limited liability partnerships or corporations in which the System has an interest, who invest, for example, in hedge funds, real estate, natural resources, private equity, managed futures, and distressed opportunities. These investments are domestic and international in nature and some of the investments may not be realized for a period of several years after the investments are made. Risks associated with these investments include liquidity risk, market risk, event risk, foreign exchange risk, interest rate risk and investment manager risk. More specifically, the risks include the following:

*Non-regulation risk* – Historically, these funds were not required to register with the Securities and Exchange Commission (SEC) and, therefore, were not subject to regulatory control. With the passage of the Dodd-Frank Act of 2010, almost all alternative investment managers are required to register with the SEC under the Investment Advisers Act of 1940. As of August 31, 2021, the Endowment Fund has no specific policy statement with respect to non-regulation risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

*Managerial risk* – Fund managers for non-publicly traded investments may fail to produce the intended returns and are not subject to oversight. However, the fund managers are subject to oversight by the Endowment Fund. The Endowment Fund has no specific policy statement with respect to managerial risk for alternative investments. However, the Endowment Fund diversifies across managers to mitigate systematic and organizational risk without creating over-diversification. The Endowment Fund further attempts to mitigate managerial risk by emphasizing the qualitative evolution of managers, discouraging the use of significant leverage, emphasizing managers with a demonstrated skill in generating returns.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

*Liquidity risk* – Many of the Endowment Fund's investment funds impose restrictions on redemptions or require multi-year lock-up periods that restrict investors from redeeming their shares or may impose penalties to redeem. The Endowment Fund has no specific policy statement with respect to liquidity risk. The policy does contain limitations on the percent that can be allocated to alternative investments and liquidity is measured.

*Limited transparency* – Any unregistered investment vehicles are not required to disclose the holdings in their portfolios to investors. This risk is mitigated somewhat by the Dodd-Frank Act of 2010 and the increased transparency provided by the requirement to file Form ADV with the SEC. The Endowment Fund has no specific policy statement with respect to transparency risk.

*Investment strategy risk* – Alternative investments often employ sophisticated and more risky investment strategies, as compared to traditional investments, and one or more may use leverage, which could result in volatile returns. To mitigate this risk, emphasis is placed on those managers who have extensive experience in employing these strategies, a demonstrated ability to consistently employ them effectively, and an established track record of superior performance. The Endowment Fund has no specific policy statement with respect to investment strategy risk. The policy does contain limitations on the percent that can be allocated to alternative investments.

*Foreign currency risk* – Foreign currency risk is the risk that changes in exchange rates will adversely affect the fair value of the Endowment Fund's non-U.S. dollar investments. Investment managers may hedge some, all or none of their foreign currency risk. The Endowment Fund has no specific policy statement with respect to foreign currency risk.

### 6) Fair Value Measurements

The Endowment Fund applies GASB guidance on fair value measurements and disclosures, which requires enhanced disclosure about the investments that are measured and reported at fair value and establishes a hierarchical disclosure framework that prioritizes and ranks the level of market price observability used in measuring investments at fair value. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Market price observability is impacted by a number of factors, including the type of investment and the characteristics specific to the investment. Investments with readily available active quoted prices or for which fair value can be measured for actively quoted prices generally will have a high degree of market price observability and a lesser degree of judgment used in measuring fair value.

All investments are measured and reported at fair value on a recurring basis and are classified and disclosed in one of the following categories.

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

**Level 1** – Quoted prices in active markets for identical investments.

**Level 2** – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting data, and fair value is determined through the use of models or other valuation methodologies.

**Level 3** – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In certain cases, the inputs use to measure fair value may fall into different levels of the fair value hierarchy. In such cases, the determination of which category within the fair value hierarchy is appropriate for any given instrument is based on the lowest level of input that is significant to the fair value measurement.

Investments held by the Endowment Fund for which market quotes are readily available are valued based on third-party pricing systems and reported at quoted prices as of the reporting date. Investments held for which market quotes are not readily available are reported based on appraised value. Investments with funds held and invested by external managers where the Endowment Fund holds a share of the external manager's fund are valued and reported at NAV and are not categorized according to fair market value.

Assets at fair value as of August 31, 2021 and 2020, were as follows:

<b>August 31, 2021</b>				
<b>Investment Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 80,403,115	\$ -	\$ -	\$ 80,403,115
Externally managed domestic	114,443,482	-	-	114,443,482
Externally managed international	15,648,623	-	-	15,648,623
Fixed income – money market and bond mutual funds	33,497,641	-	-	33,497,641
Corporate obligations	32,448,810	-	-	32,448,810
U.S. Government agencies	6,481,117	-	-	6,481,117
U.S. Government obligations	<u>29,517,262</u>	<u>-</u>	<u>-</u>	<u>29,517,262</u>
Totals	<u>\$ 312,430,050</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 312,430,050</u>

**University of Houston System  
Endowment Fund  
Notes to Basic Financial Statements  
August 31, 2021 and 2020**

<b>August 31, 2020</b>				
<b>Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 60,945,996	\$ -	\$ -	\$ 60,945,996
Externally managed domestic	56,764,601	-	-	56,764,601
Externally managed international	11,312,236	-	-	11,312,236
Fixed income – money market and bond mutual funds	34,464,753	-	-	34,464,753
Real estate	-	75,000	-	75,000
Corporate obligations	43,104,183	-	-	43,104,183
U.S. Government agencies	11,648,336	-	-	11,648,336
U.S. Government obligations	<u>37,159,607</u>	<u>-</u>	<u>-</u>	<u>37,159,607</u>
Totals	<u>\$ 255,399,712</u>	<u>\$ 75,000</u>	<u>\$ 0</u>	<u>\$ 255,474,712</u>

Investments measured at NAV as of August 31, 2021 and 2020, were as follows:

<b>August 31, 2021</b>				
<b>Investment Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equity funds	\$ 140,084,727	\$ -	As needed	30-60 days
Externally managed domestic	183,616,211	62,658,387	N/A	30-60 days
Externally managed international	256,094,093	61,374,600	N/A	30-60 days
International equities	198,737,787	-	As needed	5 days
Other comingled funds	<u>1,921,820</u>	<u>-</u>	As needed	3 days
Totals	<u>\$ 780,454,638</u>	<u>\$ 124,032,987</u>		

<b>August 31, 2020</b>				
<b>Investment Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equity funds	\$ 76,584,717	\$ -	As needed	30-60 days
Externally managed domestic	152,202,026	88,804,928	N/A	30-60 days
Externally managed international	188,904,772	91,372,870	N/A	30-60 days
International equities	152,069,650	-	As needed	5 days
Other comingled funds	<u>1,466,922</u>	<u>-</u>	As needed	3 days
Totals	<u>\$ 571,228,087</u>	<u>\$ 180,177,798</u>		

# University of Houston System Endowment Fund

## Notes to Basic Financial Statements August 31, 2021 and 2020

**(a) *Equity Funds***

This type includes investments in one fund at August 31, 2021 and 2020, that invests primarily in U.S. equities. Managers have the ability to shift investments from small to large cap stocks and from a net long position to a net short position. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice.

**(b) *Externally Managed Domestic***

This type includes investments in 39 and 35 funds at August 31, 2021 and 2020, respectively, that invest in inflation hedges, oil and gas, real estate properties, renewable natural resources, public and private equities, health care, and venture capital. Managers have the ability to invest in natural resources, venture capital, private equity real estate, multi-strategy funds, and the secondary market. Managers have the ability to shift investments in the portfolio to gain the best advantage in the market. At August 31, 2021 and 2020, respectively, approximately 18 percent and 13 percent of this class is invested in natural resources, 44 percent and 32 percent in venture capital, 10 percent and 6 percent in real estate, 16 percent and 10 percent in private equity, and 12 percent and 39 percent in multi strategies. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice, but early redemption requires complete exit from the fund. Funds in this category have expected maturity dates that range from five to ten years.

**(c) *Externally Managed International***

This type includes investments in 40 and 42 funds at August 31, 2021 and 2020, respectively, that invest in inflation hedges, hedged investments, oil and gas, real estate properties, technology, public and private domestic and international equities, fixed income securities, alternative market equities, long and short equities, global secondary, and global venture capital. At August 31, 2021 and 2020, respectively, approximately 7 percent and 4 percent of the portfolio is invested in real estate, 47 percent and 28 percent in private equity, 21 percent and 36 percent in venture capital, 6 percent and 3 percent in the secondary market and 19 percent and 29 percent in public and private domestic and global equities. For those managers who invest in equities and real estate, they have the ability to shift investments from long to short term and international to domestic. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with 30 to 60 days' notice, but early redemption requires complete exit from the fund. Funds in the category have expected maturity dates that range from five to ten years.

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**(d) Fixed Income Money Market and Bond Mutual Funds**

This type includes temporary investments in cash equivalents such as money market funds by managers whose NAV is classified in another category. Managers have the ability to shift investments. The fair values of the investments in this type have been determined using the cash value of the temporary investment. These investments are not intended for redemption as they represent a short-term transaction within a separate category.

**(e) International Equities**

This type includes investments in four funds at August 31, 2021 and 2020, that invest in international equities. The managers have the ability to shift investments to gain a more favorable outcome. The fair value of the investment in this type has been determined using the NAV per share of the investment. The investment in this category can be redeemed with five days' notice.

**(f) Other Comingled Funds**

This type includes investments in one fund at August 31, 2021 and 2020, that invests primarily in equities. This equity fund is managed by University of Houston C.T. Bauer College of Business and stocks are traded on a daily basis. The second fund is a bond fund which comprises 95 percent of the this category. The fair values of the investments in this type have been determined using the NAV per share of the investments. All investments in this category can be redeemed with three days' notice.

**7) Due to Other Components**

Due to other components at August 31, 2021 and 2020, consists of the following:

	2021	2020
Payable to System components under the income payout policy	\$ 29,166,498	\$ 27,175,783
Payable to System components for institutional advancement	6,797,953	7,018,656
Total due to other components	\$ 35,964,451	\$ 34,194,439

**8) Related-party Transactions**

In addition to the transfers-in described in the revenue recognition policy in Note 2, and distributions to other components described in Note 7, the Endowment Fund received in-kind contributions from the System in the form of personnel costs, office facilities, equipment and

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supplies in the fiscal years ended August 31, 2021 and 2020. The total estimated value of these in-kind contributions received from the System was \$941,990 and \$505,508 for the fiscal years 2021 and 2020, respectively.

**9) Administrative Costs**

The Endowment Fund pays custodial fees and expenses to the financial institution, which acts as the custodian of the portion of the Endowment Fund's assets managed under a master trust custodian agreement. The fees are based on the number of accounts, market value of the securities and transaction activities in accordance with the master trust custodian agreement.

Additionally, the Endowment Fund incurs asset management fees from the independent investment managers of the Endowment Fund. The fees are generally assessed on a quarterly basis on a percentage of the market value of investments held by each investment manager.

The Endowment Fund incurs other expenses related to its operations primarily consisting of professional service fees and expenses. The total fees and expenses incurred by the Endowment Fund for the fiscal years ended August 31, 2021 and 2020, were \$8,090,291 and \$9,978,197, respectively, and was included in net appreciation of investments on the statements of revenues, expenses and changes in net position.

**10) Income Taxes**

The System, of which the Fund is a division, is a university established as an agency of the State of Texas prior to 1969, and is qualified as a governmental entity not generally subject to federal income tax by reason of being a state or political subdivision thereof, or an integral part of a state or political subdivision thereof or an entity whose income is excluded from gross income for federal income tax purposes under Section 115 of the Internal Revenue Code of 1986. However, as a state college or university, the System is subject to unrelated business income pursuant to Internal Revenue Code of 1986 Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2021 and 2020. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

**11) Subsequent Event**

In the months subsequent to the fiscal year-end, the U.S. and world's financial markets, as measured by the global stock markets, have continued to be unpredictable. These and other economic events have had an effect on the value of investments held by the Endowment Fund. Interim valuation information is not available for all investments through the date of this report. However, for the Endowment Fund, investment appreciation subsequent to year-end and through October 31, 2021, was \$38,730,868 (unaudited). As of that date, the Endowment Fund's total net position was \$1,095,772,860 (unaudited).