MINUTES
UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS
ENDOWMENT MANAGEMENT COMMITTEE

Thursday, August 22, 2019 - The members of Endowment Management Committee of the University of Houston System convened at 9:07 a.m. on Thursday, August 22, 2019, at the Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present	Non-Member(s) Present:
Durga D. Agrawal, Chair	Gerald W. McElvy, Regent
Beth Madison, Vice Chair	Paula M. Mendoza, Regent
Doug H. Brooks, Member	Peter K. Taaffe, Regent
Steve I. Chazen, Member	John D. Fields, Student Regent, Non-voting
Jack B. Moore, 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 at 9:07 a.m.

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AGENDA ITEMS

Regent Agrawal stated there were five (5) items listed on the agenda – four (4) action items requiring committee approval and one (1) 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 recommendation(s) from Cambridge Associates would require committee approval only.

Regent Agrawal moved to the first action item requiring committee approval, the minutes from the May 16, 2019, Endowment Management Committee meeting.

On motion from Regent Brooks, seconded by Regent Moore, and by unanimous vote of the regents in attendance, the minutes from the following meeting was approved:

- May 16, 2019, Endowment Management Committee meeting

Following the approval of the minutes, Regent Agrawal stated the next item listed on the agenda would be presented by Cambridge Associates and he asked Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Administration and Finance to introduce Item C, a Report from Cambridge Associates regarding the UH System Endowment and Non-Endowed Portfolios – University of Houston System.

Mr. Bartlett introduced the four (4) representatives from Cambridge Associates who were in attendance at the meeting: Kerry Kirk, Erin Schuhmacher, Phil Fiske, and Philip DeTrempe. After introducing the representatives from Cambridge, he asked Ms. Schuhmacher to address the Endowment's performance asset allocation and other matters related to the endowed and non-endowed portfolio.

Ms. Schuhmacher stated the first meeting in August was an exciting time to be here with the buzzing of students. Ms. Schuhmacher said, in fact, one of her counterparts from their Dallas office had recently moved her oldest and only daughter into her new dorm room here at the University of Houston; and this is one more reason at Cambridge to cheer for the Cougars, said Ms. Schuhmacher!!

Ms. Schuhmacher outlined the agenda for the committee and as is customary, Cambridge would review performance asset allocation, the markets, and several recommendations for the committee's consideration. Ms. Schuhmacher referred to Mr. Kerry Kirk for a market update and below is a brief summary of his remarks.

Before Mr. Kirk presented his market report, he introduced a new member of their Cambridge Associates' team, Mr. Philip DeTrempe. Mr. Kirk point out that Mr. DeTrempe had actually been working on the UH relationship for the past 3 ½ years. He had been recently promoted and Mr. Kirk felt it was a good time to bring him to a meeting.

Mr. Kirk addressed the returns for the second quarter and the Calendar Year-to-Date ("CYTD") 2019 performance: January 1, 2019 – June 30, 2019. The main theme for the CYTD was that both risk assets and safe haven assets had a rewarding year thus far. The Global Equity and US and Non-US Equity classes, as well as Emerging Markets Equity, all had double digits through June 30, 2019. Overall, the safe haven assets, Aggregate Bonds and Gov/Credit, were up 6-7%. Hedge Funds were up 6.4% and the Natural Resource and Real Estate assets were up 14.6% and 19.3%, respectively.

The 2019 markets were off to an exceptionally strong start following market declines in the 4Q 2018. The effects of negative stock performance in Q4 2018 were reflected in trailing 1-year results; and Mr. Kirk addressed the trailing 1-year performance, July 1, 2018 – June 30, 2019. The UH portfolio has rebounded from a difficult 2018 with strong absolute returns in the first half of 2019. The portfolio reached over $750 million and remains near targets with sufficient liquidity. The total portfolio for CYTD through June 2019 was 10% (slightly below benchmark), on a trailing 1-year basis the total portfolio was up 4.2% (above the policy benchmark), and a trailing 3-year basis the portfolio was up 8.5%, and for a trailing 5-years the portfolio was up 4.3%. The portfolio remains very liquid despite a large and growing allocation to private equity investments, venture capital investments and private realized investments. Mr. Kirk commented that approximately 80% of the portfolio was available for liquidation within a year.

The UH portfolio was driven by US and Non-US Equity on an absolute basis; underperformance driven by Real Assets and Private Investment lag. Mr. Kirk reviewed the UH performance vs. benchmarks (%) as of June 30, 2019. The CY2019 result for Absolute Return was +9.9%, but Relative to Asset Allocation Benchmark down -2.2%. The key contributors on an Absolute Return basis were all seven (7) asset classes were positive and there were no real key detractors.

The UH portfolio outperforming over the trailing one-year period was driven primarily by Private Investment and Emerging Market performance. The UH performance vs. benchmarks (%) as of June 30, 2019 were reviewed. The trailing one-year result for Absolute Return was +4.2% vs. Relative to Asset Allocation benchmark was +30 bps. The key contributors were Private Investments, US Equity and Emerging Markets and the key detractors were Non-US Developed Equities and Marketable Real Assets.

As of June 30, 2019, the University of Houston's cash flows by category was addressed. Since 2012 the Endowment has:

1. Added $175 million in new gifts;
2. Generated $259 million in realized/unrealized gains,
3. Distributed $137 million to the beneficiary accounts, and
4. Paid $33 million in portfolio expenses.

Mr. Kirk gave a brief summary of asset allocation which was fairly close to policy; and the UH portfolio was generally in-line with targets. Relative Weights vs. Near-Term Targets were addressed. The portfolio was slightly over in Global Equities but this overweight was coming at the expense of the underweight to Private Equity/Venture and the overweight of Bonds and Cash. The portfolio was on target with Real Assets and the Hedge Funds were slightly underweight. UH's new Non-Endowed managers were added to the portfolio in Q2 2019. The total Non-Endowed portfolio market value was at approximately $461.0 million at the end of Q2 2019. The Asset Allocation over time was roughly 60% Cash Pool and 40% Liquidity Pool. The total Cash Pool and total Liquidity Pool make up the total Non-Endowed portfolio.

The Non-Endowed Fund Composition was diversified across Cash, Liquidity, and the Endowment. The Cash (31%) portion totaled $181.9 million; the Liquidity (47%) portion was $278.9 million; and the Endowment Quasi (22%) portion was $129.7 million. The purposes of the Cash Pool were summarized as follows:

1. Used for daily cash needs;
2. Overnight sweep T-Bills;
3. Cash rate of return;
4. Managed by Morgan Stanley; and
5. Duration: 0.0 years.

The purposes of the Liquidity Pool were summarized as follows:

1. Used for excess cash;
2. Diversified across fixed income spectrum;
3. Low to mid single-digit rate of return;
4. Managed by J.P. Morgan, Breckinridge, PIMCO & Loomis Sayles; and
5. Duration: 3.3 years.

The purposes of the Endowment Quasi Fund were outlined as follows:

1. Non-endowed funds deemed to be permanent;
2. Must stay invested for 5 years;
3. Managed by Cambridge Associates; and
4. Perpetual, long-term expected return: 6% real.

Mr. Kirk stated that during CY2018, UH had paid $7.5 million in management and incentive fees.

This item was presented for information only and no committee action was required.

Following this item, Regent Agrawal moved to Item D, the Approval is requested to make a full redemption from an inflation hedging manager and a hedged equity manager within the University of Houston System Endowment Fund – University of Houston System, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett introduced this item and asked Ms. Erin Schuhmacher to present this item.

Ms. Schuhmacher said that in their ongoing monitoring of the UH portfolio, they were mindful of managers (1) who have not met their expectations over time; and (2) situations where the manager's style had drifted. Their concerns were heightened in funds with less frequent liquidity windows. Cambridge had two (2) recommendations for full redemptions from managers for the committee's consideration.

1. Van Eck – a Global Real Assets manager. The University has been invested with this manager for approximately 5 years (since April 2014) with a very small position in the portfolio of $4.0 million, returning -9.4% annualized versus -4.5% for the S&P NA Natural Resources Index. This is a daily mutual fund so this notice will be executed shortly.

2. Brahman – an Equity Long/Short manager. The University has been invested with this manager since August 31, 2015 for $16.1 million, returning -4.2% annualized versus +2.4% for the HFRI Fund of Funds Composite Index. This manager only affords annual liquidity. Cambridge will put in notice and the redemption will be at the end of 2019. The University will receive the money in January 2020; and at this point, Cambridge will make an additional recommendation for a new manager.

Following Ms. Schuhmacher's recommendations as mentioned above, Mr. Bartlett noted that in regards to Van Eck, the proceeds from this redemption will actually be a part of the next agenda item, Item E, as the source of cash for the annual payout.

On motion of Regent Brooks, seconded by Regent Moore, and by unanimous vote of the committee members in attendance, the approval to make a full redemption from an inflation hedging manager and a hedged equity manager (Van Eck and Brahman) within the University of Houston System Endowment Fund – UH System was approved.

This item required committee approval only and no further board action was required.

Regent Agrawal stated the next item for the committee's consideration was Item E, Approval is requested to rebalance the marketable assets portfolio for the University of Houston System Endowment Fund – University of Houston System, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett stated that each year the committee receives a rebalancing recommendation to draw down cash in order to meet the annual spend from the Endowment. This year the spend will be $30.8 million and Ms. Schuhmacher summarized this recommendation for the committee's approval.

Ms. Schuhmacher stated that this years' payout amount for the University of Houston would be $30.8 million. The source of funds is typically discussed at the August meetings because the money is usually sourced from the portfolio between now and the calendar year. They will be sourcing approximately $15.8 million of the redemption from cash. As Mr. Bartlett mentioned earlier, there will be money coming back from Van Eck. In addition, when Mr. Kirk had addressed asset allocation, we were slightly overweight on bonds and cash, so we are using this opportunity to bring it more in line with targets, which is approximately half of the payout.

The other half of the payout will be sourced from the Public Equity allocation; and pro rata payout was taken across these managers as noted below:

Northern Trust Russell 1000 Index	-	$3.0 million
Columbia	-	$2.0 million
Gotham 140/40	-	$2.0 million
Vulcan Value	-	$2.0 million
Silchester	-	$2.0 million
William Blair	-	$2.0 million
Global Alpha	-	$2.0 million
Total	-	$15.0 million

When adding the $15.0 million total above and the $15.8 million from cash, it totals $30.8 million which will be pulled out of the portfolio and then given to the University to spend.

On motion of Regent Moore, seconded by Regent Brooks, and by unanimous vote of the committee members in attendance, the request to rebalance the marketable assets portfolio for the University of Houston System Endowment Fund – UH System was approved.

This item required committee approval only and no further board action was required.

Regent Agrawal moved to the last action item on the agenda, Item F, <u>Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the University of Houston System Endowment – University of Houston System</u>, and asked Mr. Bartlett to introduce this item.

Mr. Bartlett stated Mr. Phil Fiske would address this item recommending two (2) private investment managers for the committee's consideration for a total of $8.0 million. Mr. Bartlett also mentioned that in the materials that had been previously distributed, there were three (3) particular PI managers listed; but after further discussion with Cambridge and the staff, the second manager, CVP Energy Technology II, was pulled. Mr. Bartlett then asked Mr. Fiske to continue with the presentation of this item.

Mr. Fiske, from Cambridge Associates, said the University of Houston's Private Investment ("PI") program was still relatively immature, but has produced an attractive 14.3% net IRR since its inception. As of March 31, 2019, the one-year return was 16% which is an exceptionally strong performance when compared to the equity markets for that one-year period. As of the end of March

2019, the University of Houston's PI allocation was at 20.3%, but with a high level of uncalled commitments, the University should reach their long-term PI allocation of 25.0% in the near future.

Mr. Fiske presented two (2) recommendations for the committee's review and approval. The first recommendation was for the University of Houston to approve a $3.0 million commitment to TrueBridge Capital Partners Fund VI (Fund VI). TrueBridge is targeting $575 million (with $675 million maximum capitalization) for its sixth venture capital fund of funds (FoF). The manager held a first close on July 19, 2019 and plans to hold a final closing on October 18, 2019. The University of Houston is an existing investor in TrueBridge having previously committed $3.0 million to Fund II in 2010, $3.0 million in Fund III in 2013, $6.25 million to fund IV in 2015, and $5.0 million to Fund V in 2017.

TrueBridge plans to invest roughly 75-85% of Fund VI in 10 to 12 core GP relationships; 10-20% in 8-10 seed-stage venture funds; and 10% in a portfolio of direct interests in venture-backed, mid- to late-stage companies. The manager also plans to modestly increase exposure to China by possibly adding an additional Chinese manager to the core lineup.

Mr. Fiske commented that most core GP commitments will be to US early-stage, IT-focused funds, but the team will commit to multistage, non-US growth equity, or life-sciences funds opportunistically. At the fund level, the manager targets a net multiple of invested capital (MOIC) of 2.25 and a net internal rate of return (IRR) between 15% and 25%. Earlier funds have generated solid mid-teens net returns.

TrueBridge Capital Partners VI, LP's terms are outlined below:

- Target Fund Size – $575 target, $675 million hard cap
- GP Commitment – Minimum of 1% of total fund size
- Management Fee – 1% on capital commitment until the sixth anniversary of the initial drawdown; thereafter, the fee will be reduced by 10% for each preceding 12-month period until the 12th anniversary of the first drawdown; the fee will be fixed at 0.1000% of commitments through the 14th anniversary, and at 0.0075% of commitments thereafter.
- Carried Interest – 5% carried interest
- Partnership Life – 12 years from the initial closing, subject to two one-year extensions at the GP's discretion, thereafter requiring LP approval.

The second Cambridge PI manager recommendation was also presented by Mr. Fiske and requested the University of Houston approve a $5.0 million commitment to KPS Special Situations Fund V (Fund V).

Mr. Fiske stated KPS Capital Partners was seeking $5 billion in commitments, with a hard cap of $6.0 billion, for its fifth special situations fund. KPS will officially launch fundraising Fund V on September 4, 2019, with a single and final closing scheduled for mid-October 2019. A commitment to Fund V would represent the University of Houston's first investment in KPS.

KPS targets control investments in lower- and middle-market underperforming, distressed, and/or bankrupt companies and neglected divisions of larger businesses. They pursue primarily industrial and manufacturing businesses with strong franchises and solvable operating or financial problems.

Typical means of entry include equity investment, asset purchase, and from time to time acquisition of defaulted debt, and they seek to acquire businesses at or below liquidation value.

Consistent with Fund IV, Fund V will likely comprise between 15 and 20 platform investments, most often requiring approximately $200 million to $250 million of capital, with a targeted 3x-5x return on its investments.

KPS has successfully executed its turnaround, grow-and-build strategy across multiple funds and market cycles. Fund III (2007, $1.2 billion), IIIs (2009, $816 million), and IV (2013, $3.6 billion) were all tracking above median by net IRR as of December 31, 2018. Fund II (2002, $404 million) also generated stellar returns (50%+ net IRR) on a smaller capital base.

KPS Special Situations V, LP's terms are outlined as follows:

- Target Fund Size - $5.0 billion target, $6.0 billion hard cap
- Management Fee – 1.25% on capital commitments during investment period; 1.25% on paid-in capital thereafter
- GP Commitment – 2.0% of committed capital
- Carried Interest –30.0% with 8% preferred return
- Partnership Life – 12 years from the initial closing, subject to two (2) one (1) year extensions

Following this presentation, Regent Agrawal called for a motion to approve the two (2) PI manager recommendations presented to the committee.

On motion of Regent Brooks, seconded by Regent Moore, and by unanimous vote of the committee members in attendance, the request to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of two (2) private investment managers for the UH System Endowment Fund – UH System was approved as follows: (1) TrueBridge Capital Partners VI, LP. - $3.0 million; and (2) KPS Special Situations V, LP - $5.0 million.

This item required committee approval only and no further board action was required.

It should be noted that an Executive Session was not held.

There being no further business to come before the committee, this meeting was adjourned at 9:45 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.

<u>Others Present:</u>

Renu Khator	Erin Schuhmacher	Phil Fiske
Jim McShan	Kerry Kirk	Philip DeTrempe
Paula Myrick Short	Don Guyton	Richard Diaz

Others Present (cont’d):

Dona Cornell	Raymond Bartlett	Ed Castello
Eloise Dunn Brice	David Oliver	Dan Maxwell
Amr Elnashai	Mark Denney	Jeff Palmer
Lisa Holdeman	Chris Paul	Ray Raulerson
Richard Walker	Mike Rosen	Ryan Harrison
Ira K. Blake	Joe Brueggman	Jon Aldrich
Robert K. Glenn	Matthew Castello	Brian Thomas
Juan Sanchéz Munóz	Shannon Harrison	Marquette Hobbs
Brenda Robles	Gerry Mathisen	