

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

Thursday, November 19, 2015 - The members of Endowment Management Committee of the University of Houston System convened at 9:05 a.m. on Thursday, November 19, 2015, at the University of Houston, Hilton University of Houston Hotel, Conrad Hilton Ballroom, Second Floor, 4450 University Drive, Houston, Texas, with the following members participating:

ATTENDANCE –

Present

Roger F. Welder, Vice Chair  
Spencer D. Armour, III, Member  
Beth Madison, Member  
Gerald W. McElvy, Member  
Tilman J. Fertitta, Ex Officio

Member(s) Absent

Durga D. Agrawal, Chair

Non-Member(s) Present

Welcome W. Wilson, Jr., Regent  
Garret H. Hughey, Student Regent, nonvoting

In accordance with a notice being timely posted with the Secretary of State and there being a quorum in attendance, the Vice Chair of the Committee, Roger F. Welder, in the absence of the Chair of the Committee, called the meeting to order and stated that there would be a few agenda items taken out of order as they were listed on the agenda.

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**AGENDA ITEMS**

**Action Items**

Regent Welder stated there were six (6) items to be addressed – one (1) requiring committee and board approval; three (3) requiring committee approval only; and the remaining two (2) items for information only. Four (4) representatives from Cambridge Associates were present at the meeting who presented several of the items listed on the agenda. It was also noted that after discussions and any recommendation(s) made from Cambridge Associates, a vote was called; and that the recommendations from Cambridge Associates required committee approval only.

The first action item presented to the committee was the approval of minutes from the May 21, 2015 Endowment Management Committee meeting.

1. Approval of Minutes – Item B:

On motion of Regent Madison, seconded by Regent Armour, and by a unanimous vote of the regents in attendance, the following minutes from the meeting listed below was approved:

- May 21, 2015, Endowment Management Committee Meeting

Regent Welder reiterated that the first four (4) items listed on the agenda would be presented by Cambridge Associate representatives as follows:

1. Item C – Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios – University of Houston System;
2. Item D – Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of private investment managers for the UH System Endowment Fund – University of Houston System;
3. Item E – Approval is requested to make a full redemption from three hedge fund managers in the University of Houston System Endowment Fund – University of Houston System; and
4. Item F – Approval is requested to partially redeem from various investments in the University of Houston Endowment Fund in order to raise cash for the Fiscal Year 2015 endowment payout commitments to the University of Houston System components – University of Houston System.

Regent Welder asked Interim Vice Chancellor for Finance and Administration, Mr. Jim McShan, to please introduce these items.

Mr. McShan stated there were four (4) individuals from Cambridge Associates who were present at the meeting: Mr. Phil Fiske, Mr. Mark Dalton, Ms. Katherine Chu, and Ms. Erin Schuhmacher. Each representative from Cambridge Associates would address Item C – the Report from Cambridge Associates regarding the UH System endowment and non-endowed portfolios.

Ms. Schuhmacher commented that it had been a challenging year across markets, particularly in the 3rd Q. There were a number of factors which caused what Cambridge defined as a “risk-off environment” during this time period. The Chinese government devalued their currency in August which sparked fears about the slowdown in China and the fact that it may be worse than expected; the Feds held off on raising rates in the 3rd Q; and together these two scenarios hurt the emerging markets. Virtually all asset classes suffered in the 3<sup>rd</sup> Q, but in October, global markets were up approximately 7%-8%.

The University of Houston returned -7.3% in the 3<sup>rd</sup> Q, underperforming the implementation and dynamic benchmarks by 10 and 30 basis points, respectively.

Positive drivers of 3rdQ performance were:

1. Long-term treasuries protected capital, returning 5.1%;
2. While exposure to non-U.S. equities detracted on an absolute basis, UH’s managers outperformed on a relative basis; and
3. The overweight to cash was beneficial during the quarter’s market drawdown.

Negative drivers of 3rdQ performance were:

1. The University of Houston's U.S. equity managers underperformed on a relative basis; and
2. Inflation hedges continued to struggle as commodity related assets declined amidst concerns over a Chinese slowdown.

Equity managers have actually done well in the face of challenging markets, with all of them exceeding their benchmarks. The marketable inflation hedge has been quite a challenging place to be for all active managers as the severe decline in these markets have made it somewhat difficult. Asset allocations were relatively in line with most of our targets.

Mr. Phil Fiske and Ms. Katherine Chu addressed two private investment recommendations for the University of Houston System Endowment. Mr. Fiske presented the first Cambridge Associates recommendation to the committee to approve a \$7.5 million commitment to Advent Global Private Equity VIII, L.P. This commitment would represent the University's second commitment with this manager, having previously committed \$5.0 million to GPE VII in 2012. The firm's eighth fund is a compelling opportunity to invest in a highly established and successful manager pursuing upper-middle-market buyouts globally.

Advent International has one of the most experienced private equity teams investing in Europe and North America. The partners have invested across market cycles and average over 14 years with the firm. Advent International was founded in 1984 by Peter Brooke as an offshoot of the international operations of Brooks's TA Associates. In 1989, Advent created its European Special Situations Fund (ESSF), which focused on middle-market companies and spawned the GPE program. A commitment to Advent GPE VIII presents an opportunity for the University of Houston to continue to build its relationship with one of the most established and skilled managers operating in the upper middle-market segment in Europe and North America.

Advent Global Private Equity VIII, L.P.'s terms (based on terms for prior fund GPE VII) are outlined below:

- Target Fund Size – \$12 billion
- GP Commitment – 1.5-2.0% of commitments
- Management Fee – 1.5% of capital committed to the Fund, declining after the Investment Period as the portfolio is liquidated
- Carried Interest – NA
- Preferred Return – NA
- Partnership Life – 10 years from final closing date.

Following the presentation on the first private investment manager recommended by Cambridge Associates (Item D), Regent Welder called for a motion to approve the recommendation of a \$7.5 million commitment to Advent Global Private Equity VIII, L.P. as presented.

On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the motion to approve the recommendation of a \$7.5 million commitment to Advent Global Private Equity VIII, L.P. was approved. This recommendation requires committee approval only and no further board action is required.

Ms. Katherine Chu addressed the second private investment manager recommended by Cambridge, a \$7.5 million commitment to Dover Street IX, L.P. HarbourVest Partners LLC is

targeting \$3.6 billion, with a \$4.25 billion maximum capitalization, for its ninth mature secondaries fund, Dover Street IX. A first close is scheduled for December 16, 2015; and HarbourVest does not plan to activate and begin charging fees on Dover Street IX until fully investing the prior fund.

HarbourVest has an experienced and proven senior investment team with the necessary skills to successfully execute the Dover Street strategy, and all but one of the MDs have been with the team for over a decade. Furthermore, the team has continued to develop and promote the next generation of leaders, resulting in a cohesive, multi-generational partnership.

HarbourVest's strategy for Dover Street IX is clearly defined and consistent with its approach in prior funds. The team continues to focus primarily on LP interests they know well and complex situations that allow them to buy quality assets managed by quality teams at attractive relative pricing. Consistent with prior funds, HarbourVest plans to invest Dover Street IX opportunistically across geographies, asset classes, and transaction types over a three- to four-year period. They currently plan to invest roughly one-third of Dover Street IX in LP interest portfolios and two-thirds in more complex transactions, primarily captive team spinouts and whole fund liquidity solutions. These planned transaction types are LP interests, whole fund liquidity solutions, captive team spin-outs, take-privates, and joint ventures.

Dover Street IX's terms are outlined below:

- Target Fund Size – \$3.6 billion (\$4.25 billion hard cap)
- GP Commitment – 1.5% of commitments
- Management Fee – Fee will be a percentage of committed capital throughout the term
- Carried Interest – 12.5%
- Preferred Return – 8%
- Partnership Life – 10 years from final closing date, subject to four one-year extensions at the sole discretion of the GP.

Following the presentation of this private investment manager recommended by Cambridge Associates (Item D), Regent Welder called for a motion to approve the recommendation of a \$7.5 million commitment to Dover Street IX as presented.

On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the motion to approve the recommendation of a \$7.5 million commitment to Dover Street IX was approved. This recommendation requires committee approval only and no further board action is required.

Mr. Mark Dalton, from Cambridge Associates, addressed the next recommendation from Cambridge Associates (Item E) as follows:

1. Full redemption from Senator, an absolute return manager, of \$11.1 million beginning March 31, 2016. This has been a very successful manager returning 12.1% annualized versus 4.4% for the HFRI Fund Weighted Composite Index. The manager features a 25% quarterly investor level gate, requiring UH to redeem in stages over the next four calendar quarters. Cambridge plans to bring the committee a replacement manager for their review at the February 2016 meeting.

2. Full redemption from Covalent, an absolute return manager, of \$9.2 million beginning March 31, 2016. This fund has returned 5.9% annualized versus 4.7% for the HFRI Fund Weighted Composite Index. This manager also features a 25% quarterly investor level gate, requiring UH to redeem in stages over the next four calendar quarters. Cambridge plans to bring the committee a replacement manager for review at the February 2016 meeting.
3. Full redemption from Proxima, a hedge equity manager, of \$8.5 million on March 31, 2016. Since inception the fund has returned -8.4% cumulative versus 0.1% for the HFRI Fund Weighted Composite Index. A replacement manager will be recommended by Cambridge and brought to the committee for review at the February 2016 meeting. As a recently funded manager, Regent Welder asked Cambridge to address this redemption in more detail. A brief discussion followed addressing this issue.

Following the presentation of the three managers recommended by Cambridge Associate for full redemptions (Item E), Regent Welder called for a motion to approve these recommendations as presented.

On motion of Regent Madison, seconded by Regent Amour, and by a unanimous vote of the members in attendance, the motion to approve the following full redemptions from three hedge fund managers: Senator - \$11.1 million; Covalent - \$9.2 million; and Proxima - \$8.5 million, were approved. These recommendations require committee approval only and no further board action is required..

Mr. McShan introduced Item F, the request to partially redeem from various investments in the University of Houston System Endowment Fund in order to raise cash for the Fiscal Year 2015 endowment payout commitments to the University of Houston System components. Mr. McShan stated that this was an annual process. He asked Cambridge Associates to elaborate further on the exact funds that the university would be liquidating.

Ms. Schuhmacher addressed this issue and stated that there will be approximately \$28.4 million that will be paid from the endowment for University spending. The following plan for sourcing the funds was outlined as follows:

- December 2015
  - \$20.0 million distribution from current cash balance (\$28.8 million)
  - \$6.0 million partial redemption from Templeton Global Bond to replenish cash.
- January 2016
  - \$8.4 million remaining distribution from cash.
- Distributing the payout in tranches, combined with \$9.8 million of expected York redemption proceeds in January, keeps the endowment's cash balance at 2.5%, consistent with the near-term target.

Following the presentation of this item, Regent Welder called for a motion to approve this item as presented.

On motion of Regent McElvy, seconded by Regent Madison, and by a unanimous vote of the members in attendance, the request to partially redeem from various investments in the University of Houston System Endowment Fund in order to raise cash for the Fiscal Year 2015 endowment payout commitments to the University of Houston System components was approved. This recommendation requires committee approval only and no further board action is required.

The last action item addressed by the committee was Item G, the approval is requested to liquidate three endowments from the University of Houston Endowment Fund and transfer the proceeds to the University of Houston Foundation.

Mr. McShan introduced this item and stated in accordance with UH System policy 3.F.02, Section 3.15.3, approval is requested to liquidate the following UH System endowments and transfer the proceeds to the University of Houston Foundation due to award criteria within the agreements that are not consistent with Texas law. The UH Foundation will administer the endowments and award scholarships consistent with the terms of the agreements. The three endowments in question are as follows:

1. Herman A. Krause Scholarship Endowment – It was created in 1997 with a market value as of August 31, 2015 of \$67,153;
2. Helen A. Krause Scholarship Endowment – It was created in 1997 with a market value as of August 31, 2015 of \$66,108; and
3. Louis Williams Award Endowment – It was created in 1994 with a market value as of August 31, 2015 of \$22,389.

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

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

On motion of Regent Armour, seconded by Regent McElvy, and by a unanimous vote of the members in attendance, the request to liquidate three endowments from the University of Houston Endowment Fund and transfer the proceeds to the University of Houston Foundation was approved and will be placed on the Board of Regents' Consent Docket Agenda for final board approval at the November 19, 2015 Board of Regents' meeting held later today.

The final agenda item for information only was Item H, the Report on the UH System's invested fund and bank deposits. Mr. Raymond Bartlett, Senior Associate Vice Chancellor for Finance presented this item.

Mr. Bartlett stated this report was given to the committee each quarter which summarizes the UH System's invested funds and bank deposits. This report was for fiscal quarter ending August 31, 2015. There was \$1.2 billion of investable funds and bank deposits as of this date. Money Market Funds are triple rated. This information is also posted to the Treasurer's website

within 60 days of the end of each fiscal quarter and submitted annually to the State Auditor's Office, Legislative Budget Board, Texas Comptroller of Public Accounts, and the Governor's Office of Budget, Planning and Policy.

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

There was no Executive Session held.

There being no further business to come before the Committee, the meeting adjourned at 9:43 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.

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Others Present:

Renu Khator  
Jim McShan  
Dona Cornell  
Ramanan Krishnamoorti  
Richard Walker  
Raymond Vic Morgan  
Mike Johnson  
Don Guyton  
Phil Booth  
Brandon Alexander  
Marquette Hobbs

Erin Schuhmacher  
Mark Dalton  
Raymond Bartlett  
Kenya Ayers  
Charles Holtsuan  
Anita Couch  
Jeffrey Cass  
Nader Ibrahim  
Matthew Castillo  
Katie Brown  
Brenda Robles

Phil Fiske  
Katherine Chu  
Dan Maxwell  
Pam Muscarello  
Mike Glisson  
Jesse Pisors  
Iggy Harrison  
Jon Aldrich  
Brian Thomas  
Shannon Harrison  
Gerry Mathisen