

**University of Houston System  
Endowment Fund**

Independent Auditor's Report and Basic Financial Statements

August 31, 2019 and 2018



**University of Houston System  
Endowment Fund  
August 31, 2019 and 2018**

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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, 2019 and 2018, 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 opinions.

***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, 2019 and 2018, 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, 2019 and 2018, 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 8, 2020

**University of Houston System**  
**Endowment Fund**  
**Management's Discussion and Analysis – (Unaudited)**  
**August 31, 2019**

**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, 2019, as compared to fiscal year ended August 31, 2018, with summary comparisons for the year ended August 31, 2017. 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 2019, 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 1,849 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 sixty-six 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:

	<u>2019</u>	<u>2018</u>	<u>2017</u>
<u>Developed U.S. Equity</u>			
Northern Trust	7%	7%	9%
Columbia Management	5	6	6
Vulcan Value Partners	6	6	4
Gotham	4	4	3
Cougar Investment Fund	<1	<1	<1
Subtotal – developed U.S. equity	<u>22</u>	<u>23</u>	<u>22</u>
<u>Developed International Equity</u>			
William Blair	5	6	7
Silchester	8	9	10
Global Alpha	3	3	0
Subtotal – developed international equity	<u>16</u>	<u>18</u>	<u>17</u>
<u>Developing Markets</u>			
Doddington Emerging Markets	1	1	2
Somerset	1	1	3
JO Hambro	0	1	1
Edgbaston Asian Equity	1	0	0
Subtotal – developing markets	<u>3</u>	<u>3</u>	<u>6</u>
<u>Absolute Return</u>			
Anchorage Capital Partners	1	2	2
HBK	2	2	3
Davidson Kempner	3	3	3
Whipporwill	<1	<1	<1
Senator Global Opportunity	0	0	<1
Standard Life	2	2	2
ISAM	2	1	1
Subtotal – absolute return	<u>10</u>	<u>10</u>	<u>11</u>
<u>Hedged Equity</u>			
Highline Capital	<1	2	2
AQR	2	2	2
Partner Fund Management	0	0	2
Coatue	3	2	3
Sheffield Int'l Partners	0	0	1
SRS Partners	2	2	2

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<u>Hedged Equity (Continued)</u>			
Marble Arch	0%	<1%	2%
Lakewood	2	0	0
Brahman	2	2	2
Subtotal – hedged equity	11	10	16
<u>Inflation Hedge</u>			
Morgan Stanley	0	1	1
T Rowe Price	2	0	0
Vanguard	1	0	0
Van Eck Global Hard Assets	0	1	2
Wellington DIH	0	2	2
Subtotal – inflation hedge	3	4	5
<u>Bonds</u>			
Smith Graham	10	9	7
<u>Private Investments</u>			
Sustainable Woodlands Fund	<1	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	<1	<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 VIII	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 Fellow IV	1	<1	<1
TrueBridge – Kauffman Fellow V	<1	<1	0
Dover Street VIII	<1	<1	<1
LiveOak Venture Partners I	<1	<1	<1
Silver Lake Partners V	<1	<1	0
Jackson Square Ventures II	1	<1	<1
Mercury Fund IV	<1	<1	0
Penzance DC Real Estate Fund	<1	<1	0
Silver Lake Partners IV	1	1	<1

	<b>2019</b>	<b>2018</b>	<b>2017</b>
<b><u>Private Investments (Continued)</u></b>			
SV Life Sciences Fund VI	1%	1%	<1%
Great Hill Equity Partners V	1	1	1
Great Hill Equity Partners VI	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
Binary Capital Fund II	<1	0	0
ASF VIII B	<1	0	0
Vivo	<1	0	0
Kelso X	<1	0	0
Thomas Bravo XIII A	<1	0	0
Energy Spectrum VIII	<1	0	0
Great Point Partners II	<1	0	0
PeakSpan II	<1	0	0
Clear Ventures II	<1	0	0
Hastings	<1	0	0
Fisher Lynch Venture II	<1	0	0
Lexington Capital VIII	1	1	1
LiveOak Venture II	<1	<1	<1
Weathergage Venture IV	<1	<1	<1
Blackstone Europe V	1	1	<1
EnCap Energy XI	<1	<1	<1
Insight Equity III	1	<1	<1
Francisco Partners IV-A	1	1	1
Francisco Partners V	<1	<1	0
Trident VII	1	<1	0
EnCap Energy X	<1	<1	<1
EnCap Midstream IV	<1	<1	0
Blackstone Real Estate Partners VIII	1	1	1
Subtotal – private investments	<u>23</u>	<u>22</u>	<u>15</u>
Cash and equivalents	<u>2</u>	<u>1</u>	<u>1</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, 2019, 2018 and 2017, was 4 percent of the average year-end market value for the twelve prior fiscal quarters. If an endowment has been in existence less than twelve quarters, the average is based on the number of quarters in existence. This trailing twelve-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 2017 through 2019, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
University of Houston	\$ 17,383,312	\$ 17,175,183	\$ 15,760,892
UH – Clear Lake	903,268	889,396	869,369
UH – Downtown	1,112,549	1,063,154	1,070,579
UH – Victoria	457,745	450,535	450,092
System-wide endowments	<u>4,501,946</u>	<u>4,495,622</u>	<u>4,615,402</u>
Totals	<u>\$ 24,358,820</u>	<u>\$ 24,073,890</u>	<u>\$ 22,766,334</u>

## **Overview of the Financial Statements**

The financial statements for the fiscal year ended August 31, 2019, are presented comparatively to financial statements issued for the fiscal year ended August 31, 2018. 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 reports 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, 2019, the Endowment Fund's assets totaled \$758.2 million and liabilities totaled \$31.1 million, resulting in a net position of \$727.1 million.

The net position of the Endowment Fund as contributed by the System's components as of August 31, 2019, compared to the corresponding values as of August 31, 2018 and August 31, 2017, were as follows:

	<b>2019</b>	<b>2018</b>	<b>2017</b>
University of Houston	\$ 543,252,533	\$ 524,237,108	\$ 453,267,516
UH – Clear Lake	24,499,798	24,438,688	23,195,668
UH – Downtown	32,093,306	32,467,226	30,322,820
UH – Victoria	12,088,263	12,222,471	11,579,321
System-wide endowments	<u>115,240,781</u>	<u>117,605,880</u>	<u>114,397,196</u>
Totals	<u>\$ 727,124,681</u>	<u>\$ 710,971,373</u>	<u>\$ 632,762,521</u>

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

	<b>2019</b>	<b>2018</b>	<b>Change 2019-2018</b>	<b>2017</b>
Total assets	\$ 758,219,559	\$ 744,686,820	\$ 13,532,739	\$ 664,490,406
Total liabilities	31,094,878	33,715,447	(2,620,569)	31,727,885
Restricted, nonexpendable endowments	495,948,109	494,404,979	1,543,130	463,437,338
Restricted, expendable endowments	47,941,171	48,846,804	(905,633)	47,055,108
Unrestricted endowments	<u>183,235,401</u>	<u>167,719,590</u>	<u>15,515,811</u>	<u>122,270,075</u>
Net position	<u>\$ 727,124,681</u>	<u>\$ 710,971,373</u>	<u>\$ 16,153,308</u>	<u>\$ 632,762,521</u>

- Total assets: The \$13.5 million increase in fiscal year 2019 is attributable to an increase in the fair value of investments resulting from additional gifts.
- Total liabilities: The \$2.6 million decrease in liabilities is attributable to a decrease in securities purchased and pending settlement at fiscal year-end 2019.
- Restricted, nonexpendable endowments: The \$1.5 million increase in restricted nonexpendable endowments is primarily attributable to additional gifts.
- Restricted, expendable endowments: The \$0.9 million decrease in restricted expendable endowments is primarily attributable to a slight decrease in the fair value.
- Unrestricted endowments: The \$15.5 million increase is primarily attributable to additional gifts.

## **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 2019, the Endowment Fund received \$27.2 million of gifts and other receipts, interest and investment income of \$13.5 million, and a \$12.0 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2019 were \$36.6 million, including \$24.4 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$6.5 million for gift acquisition and fund raising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$16.2 million for fiscal year 2019.

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

	<b>2019</b>	<b>2018</b>	<b>Change 2019-2018</b>	<b>2017</b>
Contributions to endowments	\$ 27,239,780	\$ 58,990,090	\$ (31,750,310)	\$ 22,937,617
Net appreciation/(depreciation) (realized and unrealized)	12,021,371	45,005,116	(32,983,745)	59,178,687
Other non-operating revenues/(expenses)	(36,623,036)	(35,505,360)	(1,117,676)	(29,773,722)
Interest and investment income	13,515,193	9,719,006	3,796,187	6,521,015
Increase in net position	<u>\$ 16,153,308</u>	<u>\$ 78,208,852</u>	<u>\$ (62,055,544)</u>	<u>\$ 58,863,597</u>

- Contributions to endowments decreased \$31.8 million in 2019, as compared to 2018, due to additional funds from the System into the Core Pool Quasi Endowment that occurred in 2018.
- Changes in investment activities included a \$12.0 million net appreciation in the fair value of investments in fiscal year 2019 compared to \$45.0 million net appreciation in fiscal year 2018. This net change fiscal year-over-year is the result of the stock market decrease in certain sectors in fiscal year 2019. Interest and investment income increased by \$3.8 million as compared to 2018. Fund deductions increased by \$1.1 million from 2018 to 2019. 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 were \$0.8 more in fiscal year 2019 compared to fiscal year 2018. 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**

Capital markets performance during the year was generally positive with broad-based economic growth and mostly healthy corporate fundamentals, but negative geopolitical developments generated some weakness in certain market segments. Global equities gained, European equities underperformed developed market peers amid increasing political uncertainty and weakening macroeconomic data across the continent. Emerging markets equities sold off on dollar strength and trade concerns. U.S. fixed income finished mixed. Commodity futures advanced and the U.S. dollar was universally stronger, appreciating against virtually all developer and emerging market currencies.

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, TX 77001-0988.

# **The Basic Financial Statements**

**University of Houston System**  
**Endowment Fund**  
**Statements of Net Position**  
**August 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Assets</b>		
Current assets:		
Cash and cash equivalents	\$ 21,982,902	\$ 40,620,665
Interest and dividends receivable	658,980	569,676
Receivables for investments sold	969,832	3,770,210
Total current assets	23,611,714	44,960,551
Noncurrent assets:		
Investments	734,607,845	699,726,269
Total assets	758,219,559	744,686,820
<b>Liabilities</b>		
Current liabilities:		
Payable for investments purchased	190,402	3,113,452
Due to other components	30,904,476	30,601,995
Total liabilities	31,094,878	33,715,447
<b>Net Position</b>		
Restricted for nonexpendable endowments	495,948,109	494,404,979
Restricted for expendable endowments	47,941,171	48,846,804
Unrestricted	183,235,401	167,719,590
Total net position	\$ 727,124,681	\$ 710,971,373

**University of Houston System**  
**Endowment Fund**  
**Statements of Revenues, Expenses and Changes in Net Position**  
**Years Ended August 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Operating Revenues</b>	\$ -	\$ -
<b>Operating Expenses</b>	-	-
Operating income	0	0
<b>Nonoperating Revenues (Expenses)</b>		
Interest and investment income	13,515,193	9,719,006
Net appreciation of investments (realized and unrealized)	12,021,371	45,005,116
Other nonoperating expenses	(36,623,036)	(35,505,360)
Total nonoperating revenues (expenses)	(11,086,472)	19,218,762
<b>Contributions to Endowments</b>	27,239,780	58,990,090
<b>Change in Net Position</b>	16,153,308	78,208,852
<b>Net Position, Beginning of Year</b>	710,971,373	632,762,521
<b>Net Position, End of Year</b>	\$ 727,124,681	\$ 710,971,373

**University of Houston System**  
**Endowment Fund**  
**Statements of Cash Flows**  
**Years Ended August 31, 2019 and 2018**

	<b>2019</b>	<b>2018</b>
<b>Cash Flows From Operating Activities</b>	\$ 0	\$ 0
<b>Cash Flows From Noncapital and Related Financing Activities</b>		
Contributions to endowments	27,239,780	58,990,090
Increase in due to other components	302,481	930,528
Net cash provided by noncapital and related financing activities	27,542,261	59,920,618
<b>Cash Flows From Capital and Related Financing Activities</b>	0	0
<b>Cash Flows From Investing Activities</b>		
Proceeds from sales and maturities of investments	1,629,309,925	1,823,207,680
Payments to purchase investments	(1,683,197,189)	(1,859,554,298)
Interest and dividends received on investments	13,425,801	9,555,352
Payments for asset management and stewardship	(5,718,561)	(4,903,365)
Net cash used in investing activities	(46,180,024)	(31,694,631)
<b>Increase (Decrease) in Cash and Cash Equivalents</b>	(18,637,763)	28,225,987
<b>Cash and Cash Equivalents, Beginning of Year</b>	40,620,665	12,394,678
<b>Cash and Cash Equivalents, End of Year</b>	\$ 21,982,902	\$ 40,620,665



**University of Houston System**  
**Endowment Fund**  
**Notes to Basic Financial Statements**  
**August 31, 2019 and 2018**

**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, 2019 and 2018, 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 1,849 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, 2019 and 2018**

(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.

*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.

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*Unrestricted:* Net position for unrestricted endowment funds are donated by third parties or created internally by the System and represent resources that are available 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.

The net change in fair value of investments 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, 2017, 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 twelve quarter rolling period. For the fiscal years 2019 and 2018, the payout rate was 4 percent applied to the endowments' average net position balances for the preceding twelve quarters. If an endowment was in existence less than twelve quarters, the average was based 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.

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**(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 twelve quarter periods. For the fiscal years 2019 and 2018, the assessment fee was 1.3 percent. If an endowment has been in existence less than twelve 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, 2019 and 2018, was \$6,545,656 and \$6,528,105, 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 2018 financial statements to conform to the 2019 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 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.

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**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, 2019 or 2018, and held no direct derivative instruments at August 31, 2019 or 2018.

**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 \$21,982,902 and \$40,620,665 at August 31, 2019 and 2018, 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>2019</b>	<b>2018</b>
Cash	\$ 478,671	\$ 1,321,355
Money market funds	21,504,231	39,299,310
Total cash and cash equivalents	\$ 21,982,902	\$ 40,620,665

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

Total cash and investments at August 31, 2019 and 2018, are as follows:

<b>Type of Security</b>	<b>Fair Value</b>	
	<b>2019</b>	<b>2018</b>
Cash	\$ 478,671	\$ 1,321,355
Money market funds	21,504,231	39,299,310
U.S. Government obligations	22,370,827	23,614,336
U.S. Government agencies	15,250,416	11,621,441
U.S. fixed income (non-government/agency)	35,832,229	27,614,311
U.S. equities	81,203,201	88,392,151
Global equities ex – U.S.	148,093,915	159,177,660
Hedged equity funds	81,137,963	81,409,072
Inflation hedge funds (including REITs)	24,616,867	26,273,041

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<b>Type of Security</b>	<b>Fair Value</b>	
	<b>2019</b>	<b>2018</b>
Absolute return funds	\$ 76,116,844	\$ 73,376,459
Private equity partnerships	249,874,834	208,137,049
Real estate	110,749	110,749
Total investments	756,590,747	740,346,934
Less cash and cash equivalents	(21,982,902)	(40,620,665)
Total non-current investments	<u>\$ 734,607,845</u>	<u>\$ 699,726,269</u>

**(c) Investment Maturities**

As of August 31, 2019 and 2018, the Endowment Fund had the following investments and weighted-average maturities:

<b>Investment Type</b>	<b>2019</b>		<b>2018</b>	
	<b>Fair Value</b>	<b>Weighted-average Maturity (Years)</b>	<b>Fair Value</b>	<b>Weighted-average Maturity (Years)</b>
U.S. Government obligations <sup>(1)</sup>	\$ 22,870,827	5.2	\$ 23,614,336	4.5
U.S. Government agencies <sup>(1)</sup>	17,078,202	24.1	11,621,441	24.4
U.S. fixed income (non-government/agency) <sup>(1)</sup>	34,004,444	8.6	27,614,311	8.3
Equity, mutual funds, other investments	<u>682,637,274</u>	Untenured	<u>677,496,846</u>	Untenured
Total investments at fair value	<u>\$ 756,590,747</u>		<u>\$ 740,346,934</u>	
Weighted-average maturity of tenured portfolio		10.8		10.4

(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 51 percent and 59 percent of the overall investment portfolio (portfolio) at the end of fiscal years 2019 and 2018, respectively. Marketable alternative investments (*i.e.*, inflation hedge funds, commingled funds invested in marketable securities, absolute return and hedged-equity funds) represent 21 percent and 24 percent of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 28 percent and 17 percent of the portfolio on a funded basis at the end of the fiscal years ended 2019 and 2018, 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, 2019 and 2018, 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, 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

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alternative investments are excluded from this limitation. At August 31, 2019 and 2018, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution was \$183,969,308 and \$154,072,670, respectively. The third-party custodian operates its business world-wide and, at August 31, 2019 and 2018, 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, 2019 and 2018, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$572,621,439 and \$586,274,264, respectively. These investments, excluding real estate valued at \$110,749 at August 31, 2019 and 2018, 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). Per GASB Statement No. 40 (GASB 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 be investment grade and have an average portfolio credit quality of "AA" or better. Securities should be readily



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marketable and liquid. The use of options, futures and other derivatives (excepting mortgage-backed securities) is prohibited within the domestic fixed income allocation, wherein there is a separate account vehicle, without prior approval by the Endowment Management Committee. The use of leverage is prohibited. 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, 2019, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Bond	4.50%	02/15/2036	\$ 77,284	NR	0.01%
U S Treasury Note	2.13%	06/30/2022	1,299,608	NA	0.17%
U S Treasury Note	2.38%	05/15/2029	3,567,187	NA	0.47%
U S Treasury Note	2.38%	05/15/2027	453,156	NA	0.06%
U S Treasury Bond	4.50%	05/15/2038	662,326	NR	0.09%
U S Treasury Note	2.13%	03/31/2024	242,325	NA	0.03%
U S Treasury Note	1.38%	05/31/2020	991,498	NA	0.13%
U S Treasury Note	2.63%	01/31/2026	594,477	NA	0.08%
U S Treasury Note	2.13%	06/30/2029	4,570,793	NA	0.60%
U S Treasury Note	2.75%	11/15/2023	5,164,159	NA	0.68%
U S Treasury Note	2.75%	02/15/2028	418,000	NA	0.06%
U S Treasury Note	2.38%	02/29/2024	3,594,486	NA	0.48%
U S Treasury Note	1.63%	05/15/2026	384,066	NA	0.05%
U S Treasury Note	2.50%	05/15/2024	351,462	NA	0.05%
WFRBS Commercial					
Mortga C12 As	3.56%	03/15/2048	625,014	AAA	0.08%
Exelon Generation Co Llc	3.40%	03/15/2022	262,234	BBB+	0.03%
Hyundai Auto Receivables					
T B C	2.44%	05/15/2024	170,768	AAA	0.02%
Carmax Auto Owner Trust					
20 1 B	2.54%	09/15/2022	428,553	NA	0.06%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Amgen Inc	2.65%	05/11/2022	\$ 482,220	A	0.06%
Verizon Communications Inc	2.63%	08/15/2026	700,132	BBB+	0.09%
Southern California Edison Co	3.50%	10/01/2023	150,958	A-	0.02%
Comcast Corp	4.15%	10/15/2028	720,541	A-	0.10%
Cigna Corp	4.38%	10/15/2028	899,901	A-	0.12%
Dell International Llc / 144A	4.90%	10/01/2026	534,390	BBB-	0.07%
Goldman Sachs Group Inc/The	3.85%	01/26/2027	661,249	BBB+	0.09%
CVS Health Corp	4.30%	03/25/2028	785,131	BBB	0.10%
Bank Of America Corp	3.42%	12/20/2028	1,004,967	A-	0.13%
Citigroup Inc	3.98%	03/20/2030	629,063	BBB+	0.08%
Northrop Grumman Corp	3.20%	02/01/2027	565,939	BBB	0.07%
Abbott Laboratories	3.75%	11/30/2026	425,750	BBB+	0.06%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	948,110	NA	0.13%
New York City Ny Transitional	3.55%	08/01/2028	788,370	AAA	0.10%
Abbvie Inc	2.85%	05/14/2023	749,237	A-	0.10%
GM Financial Consumer Aut 4 A3	3.21%	10/16/2023	1,145,323	AAA	0.15%
JPM Morgan Mortgage 6 1A4 144A	3.50%	12/25/2048	122,142	AAA	0.02%
GM Financial Automobile Le 2 C	3.50%	04/20/2022	222,895	A+	0.03%
Progress Energy Inc	3.15%	04/01/2022	296,447	BBB+	0.04%
Southern California Edison Co	4.20%	03/01/2029	174,914	A-	0.02%
Toyota Auto Receivables 2 B A3	2.96%	09/15/2022	709,681	AAA	0.09%
Principal Financial Group Inc	3.40%	05/15/2025	417,235	A-	0.06%
Nissan Auto Lease Trust 2 A A3	2.76%	03/15/2022	384,887	AAA	0.05%
Ford Credit Auto Owner Tru B	1.85%	09/15/2021	269,576	AAA	0.04%
BB&T Corp	2.05%	05/10/2021	915,787	A-	0.12%
Blackrock Inc	3.38%	06/01/2022	407,211	AA-	0.05%
United Airlines 2016-1 Class A	3.10%	01/07/2030	512,827	NA	0.07%

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Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	\$ 323,024	NA	0.04%
Apple Inc	2.30%	05/11/2022	770,252	AA+	0.10%
United Airlines 2018-1 Class A	3.50%	09/01/2031	237,193	NA	0.03%
Capital One Financial Corp	3.20%	01/30/2023	591,859	BBB	0.08%
Honda Auto Receivables 20 1 A2	2.75%	09/20/2021	703,836	AAA	0.09%
World Omni Auto Receivable B B	1.73%	07/15/2023	448,286	AA+	0.06%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	410,828	AAA	0.05%
Fifth Third Bancorp	2.60%	06/15/2022	283,777	BBB+	0.04%
Hyundai Auto Receivables B A3	1.77%	01/18/2022	495,742	NR	0.07%
Regions Financial Corp	3.80%	08/14/2023	624,403	BBB+	0.08%
Citigroup Inc	3.35%	04/24/2025	568,462	BBB+	0.08%
WFRBS Commercial Mortga C13 As	3.35%	05/15/2045	52,018	NA	0.01%
Tapestry Inc	4.13%	07/15/2027	349,846	BBB-	0.05%
Utah St	4.55%	07/01/2024	384,718	AAA	0.05%
Capital One Prime Auto Re 1 A3	2.51%	11/15/2023	345,454	AAA	0.05%
PNC Bank Na	2.15%	04/29/2021	912,512	A	0.12%
Bank Of America Corp	2.88%	04/24/2023	519,420	A-	0.07%
Bank 2018-Bnk12 Bn12 As	4.49%	05/15/2061	390,602	AAA	0.05%
Vulcan Materials Co	3.90%	04/01/2027	316,725	BBB	0.04%
Lowe's Cos Inc	3.65%	04/05/2029	86,898	BBB+	0.01%
Phillips 66 Partners Lp	3.75%	03/01/2028	281,956	BBB	0.04%
Morgan Stanley Bank Of C32 A4	3.72%	12/15/2049	593,314	NA	0.08%
World Omni Automobile Lea A A3	2.83%	07/15/2021	175,949	NA	0.02%
Wells Fargo Commercial C35 A4	2.93%	07/15/2048	418,992	NA	0.06%
Carmax Auto Owner Trust 20 2 B	2.16%	12/15/2021	249,933	AAA	0.03%
JPMorgan Chase & Co	3.54%	05/01/2028	787,766	A-	0.10%
Comm 2016-Cr28 Mortgag Cr28 A1	1.77%	02/10/2049	79,570	NA	0.01%

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Ford Credit Auto Lease T A A2A	2.84%	09/15/2021	\$ 721,581	AAA	0.10%
BMW Vehicle Owner Trust 2 A A3	2.35%	04/25/2022	325,715	NA	0.04%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	201,558	AA+	0.03%
Santander Retail Aut A A3 144A	2.93%	05/20/2021	485,304	AAA	0.06%
Wells Fargo & Co	3.07%	01/24/2023	812,991	A-	0.11%
Metlife Inc	3.00%	03/01/2025	604,760	A-	0.08%
Morgan Stanley	3.63%	01/20/2027	411,808	BBB+	0.05%
Sherwin-Williams Co/The	2.75%	06/01/2022	206,140	BBB	0.03%
Oracle Corp	1.90%	09/15/2021	699,951	A+	0.09%
Morgan Stanley Bank Of C29 A4	3.33%	05/15/2049	695,149	NA	0.09%
Ally Auto Receivables Tru 2 A2	2.34%	06/15/2022	801,984	AAA	0.11%
California St	4.60%	04/01/2038	654,698	AA-	0.09%
JPMorgan Chase & Co	3.30%	04/01/2026	695,805	A-	0.09%
FHLMC Pool #G0-8615	3.50%	11/01/2044	54,776	NA	0.01%
FNMA Pool #0Ah3431	3.50%	01/01/2026	71,425	NA	0.01%
FNMA Pool #0A10160	4.50%	05/01/2041	193,109	NA	0.03%
FNMA Pool #0A13519	4.50%	11/01/2041	26,987	NA	0.00%
FNMA Pool #0A17306	4.50%	09/01/2042	93,770	NA	0.01%
FNMA Pool #0Ae0988	4.00%	09/01/2025	27,556	NA	0.00%
FNMA Pool #0As5696	3.50%	08/01/2045	111,218	NA	0.01%
FNMA Pool #0995112	5.50%	07/01/2036	37,067	NA	0.00%
FNMA Pool #0Bm1909	4.00%	02/01/2045	580,795	NA	0.08%
FNMA Pool #0A11697	4.00%	10/01/2041	22,858	NA	0.00%
FNMA Pool #0735925	5.00%	10/01/2035	170,245	NA	0.02%
FNMA Pool #0A17521	5.00%	06/01/2039	568,150	NA	0.08%
FHLMC Pool #G6-0024	3.50%	05/01/2043	188,330	NA	0.02%
FNMA Pool #0745428	5.50%	01/01/2036	93,380	NA	0.01%
FNMA Pool #0Ad0198	5.50%	09/01/2038	48,858	NA	0.01%
FNMA Pool #0Ae0949	4.00%	02/01/2041	155,720	NA	0.02%
FHLMC Pool #G1-8561	3.00%	07/01/2030	16,206	NA	0.00%
FHLMC Pool #G0-8732	3.00%	11/01/2046	1,346,125	NA	0.18%
FHLMC Pool #G0-1837	5.00%	07/01/2035	30,117	NA	0.00%
FNMA Pool #0A19578	4.00%	06/01/2045	48,756	NA	0.01%
FNMA Pool #0Ma3384	4.00%	04/01/2048	924,967	NA	0.12%
FHLMC Pool #G0-8707	4.00%	05/01/2046	594,651	NA	0.08%

# University of Houston System Endowment Fund

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
FNMA Pool #0555330	5.50%	04/01/2033	\$ 80,904	NA	0.01%
FNMA Pool #0725704	6.00%	08/01/2034	43,278	NA	0.01%
FHLMC Pool #G0-8698	3.50%	03/01/2046	272,997	NA	0.04%
FNMA Pool #0A13322	4.00%	02/01/2043	32,821	NA	0.00%
FNMA Pool #0725231	5.00%	02/01/2034	22,118	NA	0.00%
FNMA Pool #0Ad7128	4.50%	07/01/2040	149,466	NA	0.02%
FNMA Pool #0Ah3384	3.50%	01/01/2041	946,632	NA	0.13%
FNMA Pool #0A18383	4.50%	10/01/2045	56,490	NA	0.01%
FHLMC Pool #G0-8747	3.00%	02/01/2047	1,121,168	NA	0.15%
FNMA Pool #0725690	6.00%	08/01/2034	37,148	NA	0.00%
FNMA Pool #0254903	5.00%	10/01/2033	131,387	NA	0.02%
FNMA Pool #0Ae0698	4.50%	12/01/2040	19,363	NA	0.00%
GNMA II Pool #0005056	5.00%	05/20/2041	77,877	NA	0.01%
FHLMC Pool #G0-8699	4.00%	03/01/2046	400,536	NA	0.05%
FHLMC Pool #G0-8667	3.50%	09/01/2045	458,468	NA	0.06%
FHLMC Pool #G6-7702	4.00%	01/01/2047	1,408,147	NA	0.19%
FNMA Pool #0A17767	4.50%	06/01/2044	349,842	NA	0.05%
FHLMC Pool #G1-4496	3.00%	06/01/2027	552,923	NA	0.07%
FNMA Pool #0A13802	3.00%	02/01/2028	191,183	NA	0.03%
FHLMC Pool #G0-8681	3.50%	12/01/2045	952,797	NA	0.13%
FHLMC Pool #G1-4225	4.00%	08/01/2026	19,527	NA	0.00%
FHLMC Pool #G0-8687	3.50%	01/01/2046	1,425,983	NA	0.19%
FNMA Pool #0725773	5.50%	09/01/2034	138,213	NA	0.02%
FHLMC Pool #G0-8588	4.00%	05/01/2044	121,589	NA	0.02%
FNMA Pool #0A14911	3.00%	10/01/2027	88,363	NA	0.01%
FNMA Pool #0Ma3088	4.00%	07/01/2047	285,983	NA	0.04%
GNMA II Pool #0005116	5.00%	07/20/2041	42,257	NA	0.01%
GNMA II Pool #0Ma3663	3.50%	05/20/2046	417,890	NA	0.06%

The credit quality (ratings) of tenured securities and concentration of credit exposure as a percentage of total investments as of August 31, 2018, are as follows:

Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Bond	4.50%	05/15/2038	\$ 820,783	AA+	0.11%
U S Treasury Bond	4.50%	02/15/2036	67,038	AA+	0.01%
U S Treasury Bond	2.75%	02/15/2028	872,133	AA+	0.12%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
U S Treasury Bond	2.13%	06/30/2022	\$ 2,068,978	AA+	0.28%
U S Treasury Bond	2.13%	06/30/2021	4,455,903	AA+	0.60%
U S Treasury Bond	1.75%	05/15/2023	3,468,110	AA+	0.47%
U S Treasury Bond	1.63%	05/15/2026	394,559	AA+	0.05%
U S Treasury Bond	1.38%	05/31/2020	974,055	AA+	0.13%
U S Treasury Bond	1.63%	06/30/2019	4,301,595	AA+	0.58%
U S Treasury Bond	2.75%	11/15/2023	4,670,187	AA+	0.63%
U S Treasury Bond	2.38%	05/15/2027	892,116	AA+	0.12%
Vulcan Materials Co	3.90%	04/01/2027	491,456	BBB	0.07%
Hyundai Auto Receivables T B C	2.44%	05/15/2024	165,325	A+	0.02%
Apple Inc	2.30%	05/11/2022	663,809	AA+	0.09%
Unitedhealth Group Inc	3.10%	03/15/2026	478,556	A+	0.06%
California St	4.60%	04/01/2038	610,496	AA-	0.08%
Ge Capital International Fundi	2.34%	11/15/2020	406,530	A	0.05%
Mplx Lp	4.13%	03/01/2027	220,302	BBB	0.03%
Pnc Bank Na	2.15%	04/29/2021	794,829	A	0.11%
Sherwin-Williams Co/The	2.75%	06/01/2022	394,288	BBB	0.05%
Citigroup Inc	2.70%	03/30/2021	354,762	BBB+	0.05%
Abbvie Inc	2.85%	05/14/2023	638,649	A-	0.09%
Santander Retail Aut A A3 144A	2.93%	05/20/2021	294,127	AAA	0.04%
Lockheed Martin Corp	3.55%	01/15/2026	412,552	BBB+	0.06%
Cvs Health Corp	4.30%	03/25/2028	640,021	BBB	0.09%
Carmax Auto Owner Trust 20 1 B	2.54%	09/15/2022	418,077	NA	0.06%
Ford Credit Auto Owner Tru B	1.85%	09/15/2021	266,485	AA+	0.04%
Metlife Inc	3.00%	03/01/2025	500,308	A-	0.07%
Discovery Communications Llc	3.95%	03/20/2028	467,323	BBB-	0.06%
Wells Fargo Commercial C35 A4	2.93%	07/15/2048	286,155	NA	0.04%
General Electric Co	4.65%	10/17/2021	156,180	A	0.02%
Carmax Auto Owner Trust 20 2 B	2.16%	12/15/2021	245,743	AA+	0.03%
National Oilwell Varco Inc	2.60%	12/01/2022	95,837	BBB+	0.01%
Td Ameritrade Holding Corp	2.95%	04/01/2022	138,151	A	0.02%

# University of Houston System Endowment Fund

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	\$ 316,138	NA	0.04%
Gm Financial Automobile Le 3 D	3.48%	08/20/2020	160,013	BBB+	0.02%
Commercial Mortgage Pa Cr28 A1	1.77%	02/10/2049	69,344	NA	0.01%
Fifth Third Bancorp	2.60%	06/15/2022	242,152	BBB+	0.03%
Southern California Edison Co	3.50%	10/01/2023	130,385	A	0.02%
At&T Inc	3.40%	05/15/2025	646,517	BBB	0.09%
Verizon Communications Inc	2.63%	08/15/2026	557,424	BBB+	0.08%
Goldman Sachs Group Inc/The	3.75%	02/25/2026	342,895	BBB+	0.05%
Keurig Dr Pepper Inc 144A	4.60%	05/25/2028	304,491	BBB	0.04%
Gilead Sciences Inc	3.25%	09/01/2022	634,625	A	0.09%
Amgen Inc	2.65%	05/11/2022	414,604	A	0.06%
Oracle Corp	1.90%	09/15/2021	604,994	AA-	0.08%
Stryker Corp	2.00%	03/08/2019	183,442	A	0.02%
American Express Credit Corp	2.25%	05/05/2021	795,766	A-	0.11%
Towd Point Mortgage 2 A1 144A	3.25%	03/25/2058	892,415	NA	0.12%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	394,668	AAA	0.05%
Jpmorgan Chase & Co	3.25%	09/23/2022	607,218	A-	0.08%
Wfrbs Commercial Mortga C12 As	3.56%	03/15/2048	598,320	AAA	0.08%
World Omni Auto Receivable B B	1.73%	07/15/2023	437,134	AA+	0.06%
Regions Bank/Birmingham Al	2.75%	04/01/2021	428,675	A-	0.06%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	195,590	AA	0.03%
Citigroup Inc	3.14%	01/24/2023	236,638	BBB+	0.03%
Bb&T Corp	2.05%	05/10/2021	795,900	A-	0.11%
Blackrock Inc	3.38%	06/01/2022	353,818	AA-	0.05%
Capital One Financial Corp	3.20%	01/30/2023	502,959	BBB	0.07%
Abbott Laboratories	3.75%	11/30/2026	612,343	BBB	0.08%
Phillips 66 Partners Lp	3.75%	03/01/2028	290,439	BBB	0.04%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Bank Of America Corp	3.25%	10/21/2027	\$ 418,296	A-	0.06%
Bank 2018-Bnk12 Bn12 As	4.49%	05/15/2061	355,317	AAA	0.05%
Progress Energy Inc	3.15%	04/01/2022	256,841	BBB+	0.03%
Gm Financial Automobile Le 2 C	3.50%	04/20/2022	220,055	A+	0.03%
General Motors Financial Co In	4.35%	01/17/2027	629,488	BBB	0.09%
Morgan Stanley Bank Of C29 A4	3.33%	05/15/2049	637,468	NA	0.09%
Morgan Stanley	3.63%	01/20/2027	399,819	BBB+	0.05%
Bank Of America Corp	2.88%	04/24/2023	443,643	A-	0.06%
Tapestry Inc	4.13%	07/15/2027	627,745	BBB-	0.08%
Morgan Stanley Bank Of C32 A4	3.72%	12/15/2049	341,703	NA	0.05%
Jpmorgan Chase & Co	3.30%	04/01/2026	569,338	A-	0.08%
Wells Fargo & Co	3.07%	01/24/2023	694,870	A-	0.09%
Wfrbs Commercial Mortga C13 As	3.35%	05/15/2045	49,239	NA	0.01%
Jp Morgan Mortgage 6 1A4 144A	3.50%	12/25/2048	165,579	AAA	0.02%
Utah St	4.55%	07/01/2024	377,694	AAA	0.05%
Goldman Sachs Group Inc/The	2.35%	11/15/2021	305,399	BBB+	0.04%
Exelon Generation Co Llc	3.40%	03/15/2022	228,972	BBB	0.03%
Ford Credit Auto Owner Tr B A3	1.16%	11/15/2019	3,977	NA	0.00%
Fhlmc Pool #G0-1837	5.00%	07/01/2035	34,305	AA+	0.00%
Fnma Pool #0A17521	5.00%	06/01/2039	652,067	AA+	0.09%
Fnma Pool #0735925	5.00%	10/01/2035	194,839	AA+	0.03%
Fnma Pool #0As5696	3.50%	08/01/2045	121,270	AA+	0.02%
Fnma Pool #0A19578	4.00%	06/01/2045	53,992	AA+	0.01%
Fhlmc Pool #G0-8732	3.00%	11/01/2046	1,415,705	AA+	0.19%
Gnma Ii Pool #0Ma3663	3.50%	05/20/2046	483,195	AA+	0.07%
Fnma Pool #0Ae0698	4.50%	12/01/2040	21,338	AA+	0.00%
Fnma Pool #0Ae0949	4.00%	02/01/2041	170,639	AA+	0.02%
Fnma Pool #0Ah3431	3.50%	01/01/2026	90,772	AA+	0.01%
Fnma Pool #0A13322	4.00%	02/01/2043	35,545	AA+	0.00%
Fnma Pool #0A14911	3.00%	10/01/2027	110,201	AA+	0.01%
Fhlmc Pool #G0-8615	3.50%	11/01/2044	59,744	AA+	0.01%
Fhlmc Pool #G0-8667	3.50%	09/01/2045	500,588	AA+	0.07%



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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Fnma Pool #0A13802	3.00%	02/01/2028	\$ 233,645	AA+	0.03%
Fnma Pool #0A17767	4.50%	06/01/2044	387,948	AA+	0.05%
Fnma Pool #0A17306	4.50%	09/01/2042	105,082	AA+	0.01%
Fnma Pool #0555330	5.50%	04/01/2033	92,431	AA+	0.01%
Fnma Pool #0Ad7128	4.50%	07/01/2040	167,612	AA+	0.02%
Fnma Pool #0254903	5.00%	10/01/2033	152,333	AA+	0.02%

**(f) Alternative Investments**

Investments reported at fair value of approximately \$572,234,723 and \$482,678,989, as of August 31, 2019 and 2018, 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, 2019, 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.

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*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. The estimated foreign currency risk of the endowment, as measured by the un-hedged exposure of non-U.S. dollar investments, as of August 31, 2018 and 2017, is as follows.

	<b>Fair Value <sup>(1)</sup></b>	
	<b>2019</b>	<b>2018</b>
Currency:		
Euro	\$ 1,372,796	\$ 505,171
Canadian dollar	78,372	46,165
Japanese yen	296,826	334,375
Pound Sterling	260,013	264,395
Swiss Franc	114,555	1,836,569
Total	\$ 2,122,461	\$ 2,986,675

(1) These figures represent the Endowment Fund's proportional value.

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**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. 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:

- Level I** – Quoted prices are available in active markets for identical investments as of the reporting date.
- Level II** – 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 III** – 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, 2019 and 2018, were as follows.

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<b>August 31, 2019</b>				
<b>Investment Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 36,856,366	\$ -	\$ -	\$ 36,856,366
Externally managed domestic	44,346,835	-	-	44,346,835
Externally managed international	7,515,700	-	-	7,515,700
Fixed income – money market and bond mutual funds	21,982,902	-	-	21,982,902
Real estate	-	110,749	-	110,749
Corporate obligations	35,832,229	-	-	35,832,229
U.S. Government agencies	15,250,416	-	-	15,250,416
U.S. Government obligations	<u>22,370,827</u>	<u>-</u>	<u>-</u>	<u>22,370,857</u>
Totals	<u>\$ 184,155,275</u>	<u>\$ 110,749</u>	<u>\$ 0</u>	<u>\$ 184,266,024</u>

<b>August 31, 2018</b>				
<b>Category</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
Equities	\$ 45,610,012	\$ -	\$ -	\$ 45,610,012
Externally managed domestic	46,946,630	-	-	46,946,630
Externally managed international	9,584,538	-	-	9,584,538
Fixed income – money market and bond mutual funds	40,620,665	-	-	40,620,665
International equities	51,945,262	-	-	51,945,262
Real estate	-	110,749	-	110,749
Corporate obligations	27,614,311	-	-	27,614,311
U.S. Government agencies	11,621,442	-	-	11,621,442
U.S. Government obligations	<u>23,614,336</u>	<u>-</u>	<u>-</u>	<u>23,614,336</u>
Totals	<u>\$ 257,557,196</u>	<u>\$ 110,749</u>	<u>\$ 0</u>	<u>\$ 257,667,945</u>

Investments measured at NAV as of August 31, 2019 and 2018, were as follows.

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<b>August 31, 2019</b>				
<b>Investment Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equities and equity funds	\$ 50,425,789	\$ -	As needed	30-60 days
Externally managed domestic	161,470,334	78,084,876	N/A	30-60 days
Externally managed international	227,160,241	44,437,814	N/A	30-60 days
International equities	131,953,421	-	As needed	5 days
Other comingled funds	<u>1,314,938</u>	<u>-</u>	As needed	3 days
Totals	<u>\$ 572,324,723</u>	<u>\$ 122,522,690</u>		

<b>August 31, 2018</b>				
<b>Investment Category</b>	<b>Fair Value</b>	<b>Unfunded Commitments</b>	<b>Redemption Frequency</b>	<b>Redemption Notice Period</b>
Equities and equity funds	\$ 48,980,551	\$ -	As needed	30-60 days
Externally managed domestic	130,629,036	63,500,883	N/A	30-60 days
Externally managed international	214,230,534	62,132,984	N/A	30-60 days
International equities	87,530,715	-	As needed	5 days
Other comingled funds	<u>1,308,153</u>	<u>-</u>	As needed	6 months
Totals	<u>\$ 482,678,989</u>	<u>\$ 125,633,867</u>		

**(a) Equity Funds**

This type includes investments in one fund at August 31, 2019 and 2018, that invest primarily in U.S. equities. Managers have the ability to shift investments within the range of stocks that comprise the Russell 1000 Index. 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 41 and 30 funds at August 31, 2019 and 2018, respectively, that invest in inflation hedges, oil and gas, real estate properties, renewable natural resources, commodities, public and private equities, and venture capital. Managers have the ability to invest in natural resources, venture capital, private equity, real estate, multi-strategy funds and secondary market. At August 31, 2019 and 2018, respectively, approximately 17 percent and 28 percent of this class is invested in natural resources, 31 percent and 19 percent in venture capital, 5 percent and 12 percent in real estate, 9 percent and 16 percent in private equity, 34 percent and 25 percent in multi strategy and 4 percent and 0 percent in secondary markets. The fair values of the investments in this type have been determined using the NAV

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per share of the investments. All of these investments may be redeemed within a 30-60 days' notice, but early redemption requires complete exit from the fund. At August 31, 2019 and 2018, 41 percent of the funds in this class have distributions that will be received as the underlying investments of the funds are sold. The remaining funds in this class will have the proceeds from the sale of the equities reinvested back into the fund.

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

This type includes investments in 31 funds at August 31, 2019, and 33 funds at August 31, 2018, 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 secondaries, and global venture capital. At August 31, 2019 and 2018, respectively, approximately 3 percent and 2 percent of the portfolio is invested in real estate, 22 percent and 15 percent in private equity, 36 percent and 7 percent in venture capital, 0 percent and 2 percent in the secondary market and 39 percent and 76 percent in public and private domestic and global equities. 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 within a 30-60 days' notice, but early redemption requires complete exit from the fund. Funds in this category have expected maturity dates that range from 5 to 10 years. At August 31, 2019 and 2018, 21 percent of the funds in this category will have distributions that will be received as the underlying investments of the funds are liquidated. The remaining funds in this category will have the proceeds from the sale of the equities reinvested back into the fund.

**(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. 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 and two funds at August 31, 2019 and 2018, respectively, that invest in international equities. The manager has the ability to shift investments to gain a more favorable outcome. The fair values of the investments in this category have been determined using the NAV per share of the investments. The investment in this category can be redeemed with five days' notice.

**University of Houston System  
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**Notes to Basic Financial Statements**

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**(f) Other Comingled Funds**

This type includes investments in one fund at August 31, 2019 and 2018, 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 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, 2019 and 2018, consists of the following:

	<b>2019</b>	<b>2018</b>
Payable to System components under the income payout policy	\$ 24,358,820	\$ 24,073,890
Payable to System components for institutional advancement	6,545,656	6,528,105
Total due to other components	\$ 30,904,476	\$ 30,601,995

**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 supplies in the fiscal years ended August 31, 2019 and 2018. The total estimated value of these in-kind contributions received from the System was \$1,215,546 and \$679,760 for the fiscal years 2019 and 2018, respectively, and was included in contributions and other nonoperating expenses on the statements of revenues, expenses and changes in net position.

**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.

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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, 2019 and 2018, were \$5,718,560 and \$4,903,365, 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 (IRC). However, as a state college or university, the System is subject to unrelated business income pursuant to IRC Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2019 and 2018. 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, 2019, was \$9,567,208 (unaudited). As of that date, the Endowment Fund's total net position was \$767,596,365 (unaudited).