

**University of Houston System
Endowment Fund**

Independent Auditor's Report and Basic Financial Statements

August 31, 2020 and 2019



**University of Houston System
Endowment Fund
August 31, 2020 and 2019**

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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, 2020 and 2019, 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, 2020 and 2019, 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, 2020 and 2019, the changes in its financial position and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matter

Required Supplementary Information

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

BKD, LLP

Houston, Texas
January 13, 2021

University of Houston System
Endowment Fund
Management's Discussion and Analysis – (Unaudited)
August 31, 2020

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, 2020, as compared to fiscal year ended August 31, 2019, with summary comparisons for the year ended August 31, 2018. 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 2020, 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 1,905 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-one 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:

	2020	2019	2018
<u>Developed U.S. Equity</u>			
Northern Trust	9%	7%	7%
Columbia Management	7	5	6
Vulcan Value Partners	7	6	6
Gotham	5	4	4
Cougar Investment Fund	<1	<1	<1
Subtotal – developed U.S. equity	29	22	23
<u>Developed International Equity</u>			
William Blair	7	5	6
Silchester	7	8	9
Global Alpha	3	3	3
Subtotal – developed international equity	17	16	18
<u>Developing Markets</u>			
Doddington Emerging Markets	1	1	1
Somerset	1	1	1
JO Hambro	0	0	1
Edgbaston Asian Equity	1	1	0
Subtotal – developing markets	3	3	3
<u>Absolute Return</u>			
Anchorage Capital Partners	1	1	2
HBK	2	2	2
Davidson Kempner	2	3	3
Whipporwill	<1	<1	<1
Standard Life	<1	2	2
ISAM	0	2	1
Subtotal – absolute return	6	10	10
<u>Hedged Equity</u>			
Highline Capital	<1	<1	2
AQR	0	2	2
Coatue	0	3	2
Lakewood	<1	2	0
SRS Partners	1	2	2
Marble Arch	0	0	<1
Brahman	0	2	2
Subtotal – hedged equity	2	11	10

	2020	2019	2018
<u>Inflation Hedge</u>			
Morgan Stanley	0%	0%	1%
Vanguard	1	1	0
Van Eck Global Hard Assets	0	0	1
T Rowe Price	1	2	0
Wellington DIH	0	0	2
Subtotal – inflation hedge	2	3	4
<u>Bonds</u>			
Smith Graham	12	10	9
<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	<1
Advent International IX	<1	0	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	<1
TrueBridge – Kauffman Fellow VI	<1	0	0
Dover Street VIII	<1	<1	<1
Dover Street IX	<1	0	0
LiveOak Venture Partners I	<1	<1	<1
Silver Lake Partners V	<1	<1	<1
Jackson Square Ventures II	<1	1	<1
Jackson Square Ventures III	<1	0	0
Mercury Fund IV	<1	<1	<1
Penzance DC Real Estate Fund	<1	<1	<1
Penzance DC Real Estate Fund II	<1	0	0
Silver Lake Partners IV	<1	1	1
Acme Fund III	<1	0	0

	2020	2019	2018
<u>Private Investments (Continued)</u>			
SV Life Sciences Fund VI	<1%	1%	1%
Great Hill Equity Partners V	<1	1	1
Great Hill Equity Partners VI	<1	1	<1
Great Hill Equity Partners VII	<1	0	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	<1	0
ASF VIII B	<1	<1	0
Vivo	<1	<1	0
US Venture Partners XIII	<1	0	0
Kelso X	<1	<1	0
Thoma Bravo XIII A	<1	<1	0
Thoma Bravo XIV A	<1	0	0
Energy Spectrum VIII	<1	<1	0
Great Point Partners III	<1	<1	0
PeakSpan II	<1	<1	0
Clear Ventures II	<1	<1	0
Hastings	<1	<1	0
Fisher Lynch Venture II	<1	<1	0
Lexington Capital VIII	<1	1	1
Lexington Capital IX	<1	0	0
LiveOak Venture II	<1	<1	<1
Weathergage Venture IV	<1	<1	<1
Blackstone Europe V	<1	1	1
Blackstone Real Estate IX	<1	0	0
Blackstone Real Estate Europe VI	<1	0	0
EnCap Energy XI	<1	<1	<1
Insight Equity III	<1	1	<1
Francisco Partners IV-A	<1	1	1
Francisco Partners V	<1	<1	<1
Francisco Partners VI	<1	0	0
Trident VII	<1	1	<1
Trident VIII	<1	0	0
EnCap Energy X	<1	<1	<1
EnCap Midstream IV	<1	<1	<1
Blackstone Real Estate Partners VIII	<1	1	1
Subtotal – private investments	<u>28</u>	<u>23</u>	<u>22</u>
Cash and equivalents	<u>1</u>	<u>2</u>	<u>1</u>
Total	<u>100%</u>	<u>100%</u>	<u>100%</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, 2020, 2019 and 2018, was 4 percent of the average year-end market value for the 12 prior fiscal quarters. If an endowment has been in existence less than 12 quarters, the average is based on the number of quarters in existence. This trailing 12-quarter method is used to smooth large year-over-year changes in market value, thereby allowing the UH System's colleges and departments to more reasonably predict future distributions of endowment income intended to benefit their area.

In the three fiscal years 2018 through 2020, endowment payouts to the beneficiary accounts, excluding distributed income returned to principal, in total and by the System's components were as follows:

	2020	2019	2018
University of Houston	\$ 19,950,605	\$ 17,383,312	\$ 17,175,183
UH – Clear Lake	953,707	903,268	889,396
UH – Downtown	1,198,201	1,112,549	1,063,154
UH – Victoria	477,694	457,745	450,535
System-wide endowments	<u>4,595,576</u>	<u>4,501,946</u>	<u>4,495,622</u>
Totals	<u>\$ 27,175,783</u>	<u>\$ 24,358,820</u>	<u>\$ 24,073,890</u>

Overview of the Financial Statements

The financial statements for the fiscal year ended August 31, 2020, are presented comparatively to financial statements issued for the fiscal year ended August 31, 2019. The financial statements have been prepared in accordance with the standards of the GASB, which establishes generally accepted accounting principles for state and local governments. The three primary financial statements presented are (1) the statements of net position, (2) the statements of revenues, expenses and changes in net position and (3) the statements of cash flows. The information contained in the financial statements of the Endowment Fund is incorporated within the System's Combined Annual Financial Report.

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

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

Statements of Net Position

The statements of net position reflect the Endowment Fund's assets and liabilities using the economic resources measurement focus and accrual basis of accounting, and represents the financial position as of the conclusion of the fiscal year. Net position is equal to assets minus liabilities. Unrestricted net position are available to the System for any lawful purpose. Unrestricted net position often has constraints imposed by management, but such constraints can be removed or modified. Restricted net position represents net position that can be utilized only in accordance with third-party imposed restrictions. On August 31, 2020, the Endowment Fund's assets totaled \$828.4 million and liabilities totaled \$34.6 million, resulting in a net position of \$793.8 million.

The net position of the Endowment Fund as contributed by the System's components as of August 31, 2020, compared to the corresponding values as of August 31, 2019 and August 31, 2018, were as follows:

	2020	2019	2018
University of Houston	\$ 597,351,708	\$ 543,252,533	\$ 524,237,108
UH – Clear Lake	26,214,690	24,499,798	24,438,688
UH – Downtown	35,323,895	32,093,306	32,467,226
UH – Victoria	12,927,860	12,088,263	12,222,471
System-wide endowments	<u>121,982,504</u>	<u>115,240,781</u>	<u>117,605,880</u>
Totals	<u>\$ 793,800,657</u>	<u>\$ 727,124,681</u>	<u>\$ 710,971,373</u>

Variance Analysis-Changes in the Statements of Net Position

	2020	2019	Change 2020-2019	2018
Total assets	\$ 828,430,533	\$ 758,219,559	\$ 70,210,974	\$ 744,686,820
Total liabilities	34,629,876	31,094,878	3,534,998	33,715,447
Restricted, nonexpendable endowments	544,197,392	495,948,109	48,249,283	494,404,979
Restricted, expendable endowments	52,757,644	47,941,171	4,816,473	48,846,804
Unrestricted endowments	<u>196,845,621</u>	<u>183,235,401</u>	<u>13,610,220</u>	<u>167,719,590</u>
Net position	<u>\$ 793,800,657</u>	<u>\$ 727,124,681</u>	<u>\$ 66,675,976</u>	<u>\$ 710,971,373</u>

- Total assets: The \$70.2 million increase in fiscal year 2020 is primarily attributable to an increase in the fair value of investments.
- Total liabilities: The \$3.5 million increase in liabilities is primarily attributable to an increase in amounts due to other components of the University for required distributions.
- Restricted, nonexpendable endowments: The \$48.2 million increase in restricted nonexpendable endowments is primarily attributable to an increase in the fair value of investments.

- Restricted, expendable endowments: The \$4.8 million increase in restricted expendable endowments is primarily attributable to an increase in the fair value of investments.
- Unrestricted endowments: The \$13.6 million increase is primarily attributable to an increase in the fair value of investments.

Statements of Revenues, Expenses and Changes in Net Position

The statements of revenues, expenses and changes in net position contain information about the additions to, the deductions from, and the resulting net increase or decrease in the fair value of the net position for the fiscal year. During fiscal year 2020, the Endowment Fund received \$20.4 million of gifts and other receipts, interest and investment income of \$7.0 million, and a \$83.5 million net increase in the fair value of investments. The Endowment Fund's total deductions for fiscal year 2020 were \$44.2 million, including \$27.2 million earmarked for distribution to the beneficiary endowment accounts under the planned payout policy and \$7.0 million for gift acquisition and fund raising efforts. As a result of these activities, the Endowment Fund realized an increase in net position of \$66.7 million for fiscal year 2020.

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

	2020	2019	Change 2020-2019	2018
Contributions to endowments	\$ 20,429,180	\$ 27,239,780	\$ (6,810,600)	\$ 58,990,090
Net realized and unrealized appreciation	83,460,443	12,021,371	71,439,072	45,005,116
Other non-operating expenses	(44,172,626)	(36,623,036)	(7,549,600)	(35,505,360)
Interest and investment income	6,958,988	13,515,193	(6,556,205)	9,719,006
Increase in net position	<u>\$ 66,675,975</u>	<u>\$ 16,153,308</u>	<u>\$ 50,522,667</u>	<u>\$ 78,208,852</u>

- Contributions to endowments decreased \$6.8 million in 2020, as compared to 2019, due to the effects of the COVID-19 virus on financial markets and donor uncertainty.
- Changes in investment activities included an \$83.5 million net appreciation in the fair value of investments in fiscal year 2020 compared to \$12.0 million net appreciation in fiscal year 2019. This net change fiscal year-over-year is the result of the stock market increase in certain sectors in fiscal year 2020. Interest and investment income decreased by \$6.6 million as compared to 2019. Fund deductions increased by \$7.5 million from 2019 to 2020. 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 \$4.3 million more in fiscal year 2020 compared to fiscal year 2019. 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

After the historic drawdown in the first quarter of 2020, the markets rebounded in an equally historic rally in the second quarter. Volatility bounced back at the end of fiscal year 2020 as tensions heightened over the presidential election. U.S. equities declined, but outperformed broader developer markets. Despite the decline, the United States remained up, leading all major global equity markets. Utilities, real estate and consumer staples gained, while energy declined. European equities declined and lagged broader developed markets.

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

The Basic Financial Statements

**University of Houston System
Endowment Fund
Statements of Net Position
August 31, 2020 and 2019**

	2020	2019
Assets		
Current assets:		
Cash and cash equivalents	\$ 32,632,514	\$ 21,982,902
Interest and dividends receivable	656,976	658,980
Receivables for investments sold	1,070,758	969,832
Total current assets	34,360,248	23,611,714
Noncurrent assets:		
Investments	794,070,285	734,607,845
Total assets	828,430,533	758,219,559
Liabilities		
Current liabilities:		
Payable for investments purchased	435,437	190,402
Due to other components	34,194,439	30,904,476
Total liabilities	34,629,876	31,094,878
Net Position		
Restricted for nonexpendable endowments	544,197,392	495,948,109
Restricted for expendable endowments	52,757,644	47,941,171
Unrestricted	196,845,621	183,235,401
Total net position	\$ 793,800,657	\$ 727,124,681

**University of Houston System
Endowment Fund**
Statements of Revenues, Expenses and Changes in Net Position
Years Ended August 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating Revenues	\$ -	\$ -
Operating Expenses	<u>-</u>	<u>-</u>
Operating income	<u>0</u>	<u>0</u>
Nonoperating Revenues (Expenses)		
Interest and investment income	6,958,988	13,515,193
Net realized and unrealized appreciation	83,460,443	12,021,371
Other nonoperating expenses	<u>(44,172,635)</u>	<u>(36,623,036)</u>
Total nonoperating revenues (expenses)	46,246,796	(11,086,472)
Contributions to Endowments	<u>20,429,180</u>	<u>27,239,780</u>
Change in Net Position	66,675,976	16,153,308
Net Position, Beginning of Year	<u>727,124,681</u>	<u>710,971,373</u>
Net Position, End of Year	\$ <u><u>793,800,657</u></u>	\$ <u><u>727,124,681</u></u>

**University of Houston System
Endowment Fund
Statements of Cash Flows
Years Ended August 31, 2020 and 2019**

	2020	2019
Cash Flows From Operating Activities	\$ <u>0</u>	\$ <u>0</u>
Cash Flows From Noncapital and Related Financing Activities		
Contributions to endowments	20,429,180	27,239,780
Increase in due to other components	<u>3,289,963</u>	<u>302,481</u>
Net cash provided by noncapital and related financing activities	<u>23,719,143</u>	<u>27,542,261</u>
Cash Flows From Capital and Related Financing Activities	<u>0</u>	<u>0</u>
Cash Flows From Investing Activities		
Proceeds from sales and maturities of investments	1,940,422,744	1,629,309,925
Payments to purchase investments	(1,950,471,341)	(1,683,197,189)
Interest and dividends received on investments	6,957,263	13,425,801
Payments for asset management and stewardship	<u>(9,978,197)</u>	<u>(5,718,561)</u>
Net cash used in investing activities	<u>(13,069,531)</u>	<u>(46,180,024)</u>
Increase (Decrease) in Cash and Cash Equivalents	10,649,612	(18,637,763)
Cash and Cash Equivalents, Beginning of Year	<u>21,982,902</u>	<u>40,620,665</u>
Cash and Cash Equivalents, End of Year	\$ <u><u>32,632,514</u></u>	\$ <u><u>21,982,902</u></u>

University of Houston System Endowment Fund

Notes to Basic Financial Statements August 31, 2020 and 2019

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, 2020 and 2019, 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 1,905 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, 2020 and 2019

(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.

University of Houston System Endowment Fund

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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 without restrictions to the System.

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

(f) Revenue Recognition

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

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

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

(g) Distribution Payout

Effective September 1, 2018, the System's Board of Regents adopted an endowment payout policy whereby the payout rate is based on a percentage of the fiscal year-end net position averaged over a 12-quarter rolling period. For the fiscal years 2020 and 2019, the payout rate was 4 percent applied to the endowments' average net position balances for the preceding 12 quarters. If an endowment was in existence less than 12 quarters, the average was based 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.

University of Houston System Endowment Fund

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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 12 quarter periods. For the fiscal years 2020 and 2019, the assessment fee was 1.3 percent. If an endowment has been in existence less than 12 quarters, the average will be based on the number of quarters in existence.

The assessment is made at the end of each fiscal year to make funds available for the System's institutional advancement activities in the following fiscal year. The total amount assessed for the years ended August 31, 2020 and 2019, was \$7,018,656 and \$6,545,656, respectively.

(i) Estimates

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

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.

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, 2020 or 2019, and held no direct derivative instruments at August 31, 2020 or 2019.

University of Houston System Endowment Fund

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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 \$32,632,514 and \$21,982,902 at August 31, 2020 and 2019, 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:

	2020	2019
Cash	\$ 4,010,518	\$ 478,671
Money market funds	28,621,996	21,504,231
Total cash and cash equivalents	\$ 32,632,514	\$ 21,982,902

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

Total cash and investments at August 31, 2020 and 2019, are as follows:

Type of Security	Fair Value	
	2020	2019
Cash	\$ 4,010,518	\$ 478,671
Money market funds	28,621,996	21,504,231
U.S. Government obligations	37,159,607	22,370,827
U.S. Government agencies	11,648,336	15,250,416
Fixed income (non-government/agency)	44,936,422	35,832,229
U.S. equity securities	117,710,597	81,203,201
Global equities excluding U.S.	175,234,734	148,093,915
Hedged equity funds	15,885,300	81,137,963
Inflation hedge funds (including REITs)	22,929,382	24,616,867
Absolute return funds	48,781,637	76,116,844
Private equity investments	319,709,270	249,874,834
Real estate	75,000	110,749
Total investments	826,702,799	756,590,747
Less cash and cash equivalents	(32,632,514)	(21,982,902)
Total non-current investments	\$ 794,070,285	\$ 734,607,845

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(c) Investment Maturities

As of August 31, 2020 and 2019, the Endowment Fund had the following investments and weighted-average maturities:

Investment Type	2020		2019	
	Fair Value	Weighted-average Maturity (Years)	Fair Value	Weighted-average Maturity (Years)
U.S. Government obligations ⁽¹⁾	\$ 37,159,607	3.54	\$ 22,870,827	5.2
U.S. Government agencies ⁽¹⁾	11,648,336	22.95	17,078,202	24.1
U.S. fixed income (non-government/agency) ⁽¹⁾	44,936,422	7.85	34,004,444	8.6
Equity, mutual funds, other investments	<u>732,958,434</u>	Untenured	<u>682,637,274</u>	Untenured
Total investments at fair value	<u>\$ 826,702,799</u>		<u>\$ 756,590,747</u>	
Weighted-average maturity of tenured portfolio		8.0		10.8

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

(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 65 percent and 51 percent of the overall investment portfolio (portfolio) at the end of fiscal years 2020 and 2019, respectively. Marketable alternative investments (*i.e.*, inflation hedge funds,

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commingled funds invested in marketable securities, absolute return and hedged-equity funds) represent 11 percent and 21 percent of the portfolio, and non-marketable alternative investments (*i.e.*, venture capital, private equity, real estate, natural resources, energy) constitute 24 percent and 28 percent of the portfolio on a funded basis at the end of the fiscal years ended 2020 and 2019, 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, 2020 and 2019, 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 alternative investments are excluded from this limitation. At August 31, 2020 and 2019, the Endowment Fund's total investments at fair value under a master trust custodian agreement with a third-party financial institution was \$239,809,293 and \$183,969,308, respectively. The third-party custodian operates its business world-wide and, at August 31, 2020 and 2019, 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, 2020 and 2019, the Endowment Fund's investments at fair value not covered by the master trust custodian agreement were \$586,893,506 and \$572,621,439, respectively. These investments, excluding real estate valued at \$75,000 and \$110,749 at August 31, 2020 and 2019, respectively, were under various custodian agreements between the investment managers and the investment funds or limited partnerships in which the Endowment Fund is

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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). Pursuant to GASB Statement No. 40, *Deposit and Investment Risk Disclosures, and amendment to GASB Statement No. 3*, unless there is information to the contrary, obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government are not considered to have credit risk and do not require disclosure of credit quality. In accordance with the System's investment policy and manager guidelines, where applicable, investments in securities within the fixed income allocation of the portfolio must be investment grade and have an average portfolio credit quality of "AA" or better. Securities should be readily 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.

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

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

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
Capital One Financial Corp	3.20%	01/30/2023	\$ 697,013	BBB	0.08%
Capital One Prime Auto Re 1 A3	2.51%	11/15/2023	880,889	AAA	0.11%
Carmax Auto Owner Trust 20 1 B	2.54%	09/15/2022	428,404	NA	0.05%
Carmax Auto Owner Trust 20 1 C	2.84%	10/17/2022	322,912	NA	0.04%
Carmax Auto Owner Trust 20 4 B	2.46%	08/15/2023	204,950	AAA	0.02%
Citigroup Inc	3.98%	03/20/2030	760,488	BBB+	0.09%
Citigroup Inc	3.35%	04/24/2025	680,069	BBB+	0.08%
Comcast Corp	4.15%	10/15/2028	879,222	A-	0.11%
Comm 2013-Lc6 Mortgage Lc6 A4	2.94%	01/10/2046	333,193	AAA	0.04%
Costco Wholesale Corp	1.60%	04/20/2030	998,493	A+	0.12%
Cummins Inc	0.75%	09/01/2025	871,984	A+	0.11%
Dell International Llc / 144A Dominion Energy Gas Holdings L	4.90%	10/01/2026	650,843	BBB-	0.08%
Exelon Generation Co Llc	2.50%	11/15/2024	968,721	BBB+	0.12%
Ford Credit Auto Lease T A A2A	3.40%	03/15/2022	265,473	BBB+	0.03%
Gm Financial Automobile Le 2 C	2.84%	09/15/2021	73,518	AAA	0.01%
Gm Financial Consumer Aut 4 A3	3.50%	04/20/2022	221,366	AA+	0.03%
Goldman Sachs Group Inc/The	3.21%	10/16/2023	1,000,498	AAA	0.12%
Goldman Sachs Group Inc/The	3.85%	01/26/2027	809,102	BBB+	0.10%
Hewlett Packard Enterprise Co	2.91%	07/24/2023	693,555	BBB+	0.08%
Honda Auto Receivables 20 1 A2	2.25%	04/01/2023	828,528	BBB	0.10%
Honda Auto Receivables 20 2 A3	2.75%	09/20/2021	165,344	AAA	0.02%
Hyundai Auto Receivables B A3	2.52%	06/21/2023	312,951	NA	0.04%
Hyundai Auto Receivables T B C	1.77%	01/18/2022	94,880	NR	0.01%
Jpmorgan Chase & Co	2.44%	05/15/2024	172,764	AAA	0.02%
Jpmorgan Chase & Co	3.30%	04/01/2026	847,737	A-	0.10%
Metlife Inc	3.54%	05/01/2028	1,479,239	A-	0.18%
Morgan Stanley Bank Of C32 A4	3.00%	03/01/2025	737,472	A-	0.09%
Morgan Stanley	3.72%	12/15/2049	1,410,721	NA	0.17%
	3.63%	01/20/2027	502,656	BBB+	0.06%

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

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

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

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%
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%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
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%
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	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%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
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 WFRBS Commercial Mortga C13 As	3.35%	04/24/2025	568,462	BBB+	0.08%
	3.35%	05/15/2045	52,018	NA	0.01%
Tapestry Inc	4.13%	07/15/2027	349,846	BBB-	0.05%
Utah St Capital One Prime Auto Re 1 A3	4.55%	07/01/2024	384,718	AAA	0.05%
	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 Comm 2016-Cr28 Mortgag Cr28 A1	3.54%	05/01/2028	787,766	A-	0.10%
	1.77%	02/10/2049	79,570	NA	0.01%
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%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
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%
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%

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Issuer	Coupon Rate	Maturity Date	Fair Value	S&P Risk Rating	Concentration of Credit Exposure
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%

(f) *Alternative Investments*

Investments reported at fair value of approximately \$571,228,087 and \$572,234,723, as of August 31, 2020 and 2019, 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, 2020, 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

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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.

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, 2020 and 2019, is as follows:

	Fair Value ⁽¹⁾	
	2020	2019
Currency:		
Euro	\$ 588,357	\$ 1,372,796
Canadian dollar	53,095	78,372
Japanese yen	510,635	296,826
Pound Sterling	331,390	260,012
Swiss Franc	150,914	114,455
Total	\$ 1,634,391	\$ 2,122,461

(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 1** – Quoted prices are available in active markets for identical investments as of the reporting date.
- Level 2** – Pricing inputs are other than quoted prices in active markets, which are either directly or indirectly observable as of the reporting data, and fair value is determined through the use of models or other valuation methodologies.
- Level 3** – Pricing inputs are unobservable for the investment and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

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

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

Assets at fair value as of August 31, 2020 and 2019, were as follows.

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

August 31, 2019				
Category	Level 1	Level 2	Level 3	Total
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>

Investments measured at NAV as of August 31, 2020 and 2019, were as follows:

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

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August 31, 2019				
Investment Category	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
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>		

(a) *Equity Funds*

This type includes investments in one fund at August 31, 2020 and 2019, 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 35 and 41 funds at August 31, 2020 and 2019, 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, 2020 and 2019, respectively, approximately 13 percent and 17 percent of this class is invested in natural resources, 32 percent and 31 percent in venture capital, 6 percent and 5 percent in real estate, 10 percent and 9 percent in private equity, and 39 percent and 34 percent in multi strategy and 0 percent and 4 percent in secondary markets. The fair values of the investments in this type have been determined using the NAV 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, 2020 and 2019, 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 42 and 31 funds at August 31, 2020, and 2019, respectively, that invest in inflation hedges, hedged investments, oil and gas, real estate properties, technology, public and private domestic and international equities, fixed income securities,

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alternative market equities, long and short equities, global secondaries, and global venture capital. At August 31, 2020 and 2019, respectively, approximately 4 percent and 3 percent of the portfolio is invested in real estate, 28 percent and 22 percent in private equity, 36 percent and 36 percent in venture capital, 3 percent and 0 percent in the secondary market and 32 percent and 39 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, 2020 and 2019, 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, 2020 and 2019, 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.

(f) *Other Comingled Funds*

This type includes investments in one fund at August 31, 2020 and 2019, 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, 2020 and 2019, consists of the following.

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	2020	2019
Payable to System components under the income payout policy	\$ 27,175,783	\$ 24,358,820
Payable to System components for institutional advancement	7,018,656	6,545,656
Total due to other components	\$ 34,194,439	\$ 30,904,476

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, 2020 and 2019. The total estimated value of these in-kind contributions received from the System was \$1,116,127 and \$1,215,546 for the fiscal years 2020 and 2019, 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.

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, 2020 and 2019, were \$9,978,197 and \$5,718,560, 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

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income tax purposes under Section 115 of the Internal Revenue Code of 1986. However, as a state college or university, the System is subject to unrelated business income pursuant to Internal Revenue Code of 1986 Section 511(a)(2)(B). No material unrelated business income tax was incurred for the years ended August 31, 2020 and 2019. 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, 2020, was \$26,681,895 (unaudited). As of that date, the Endowment Fund's total net position was \$820,482,552 (unaudited).