AGENDA

UNIVERSITY OF HOUSTON SYSTEM
ENDOWMENT MANAGEMENT COMMITTEE MEETING

DATE: **Thursday, August 20, 2020**

TIME: **9:30 AM**

PLACE:

Chair: **Beth Madison**
Vice Chair: **Jack B. Moore**
Members: **Durga D. Agrawal**
Alonzo Cantu
John A. McCall, Jr.
Alvaro De La Cruz
Tilman J. Fertitta, Ex Officio

I. **Endowment Management Committee**

A. Call to order

B. Approval of Minutes
- February 27, 2020, Endowment Management Committee Meeting

C. Report from Cambridge Associates regarding the University of Houston System endowment and non-endowed portfolios - University of Houston System 3

D. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of fixed income managers for the University of Houston System Endowment Fund - University of Houston System 42

E. Approval is requested to make a full redemption from a value focused equity manager and reallocate the proceeds to one or more existing managers within the University of Houston System Endowment Fund - University of Houston System 43

II. **Executive Session**

A. Consultation with System Attorney Regarding Legal Matters and/or Contemplated Litigation or Settlement Offers
TEXAS GOV'T CODE SECTION 551.071
- Discussion regarding contract for investment consultant

B. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property
TEXAS GOV'T CODE SECTION 551.072

C. Deliberations regarding a Prospective Gift
TEXAS GOV'T CODE SECTION 551.073

D. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees, including but not limited to the Chancellor, Presidents, Vice Chancellors, in the Division of Athletics and members of the Board of Regents
TEXAS GOV'T CODE SECTION 551.074

III. **<u>Report and Action from Executive Session</u>**

IV. **<u>Adjourn</u>**

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Report from Cambridge Associates regarding the University of Houston System endowment and non-endowed portfolios.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

Representatives from Cambridge Associates will present to the Committee a report regarding the System's endowment and non-endowed investment portfolios. The report may include, such topics as market commentary, asset allocation, portfolio risk analysis, manager performance reporting, current and future investment strategies, and overall portfolio performance among others.

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: None

RECOMMENDATION/ ACTION REQUESTED: This item is for information only.

COMPONENT: University of Houston System

Jim McShan 8/6/2020

SENIOR VICE CHANCELLOR Jim McShan **DATE**

CHANCELLOR Renu Khator **DATE**

UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS

UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS

AUGUST 2020

UNIVERSITY OF HOUSTON SYSTEM

DISCUSSION MATERIALS

AUGUST 2020

Kerry D. Kirk, CFA
Erin Schuhmacher
Phil Fiske
Kelly Jensen

Agenda

August 20, 2020

I. Market Update

II. Cambridge Associates Report on UH Portfolio (Information Only)

   a. UH Performance & Asset Allocation (Endowed & Non-Endowed)

   b. Private Investments Update

III. Cambridge Associates Recommendations (Action Items)

   a. US Equity Manager Recommendations

   b. Fixed Income Recommendations

IV. Appendix

EXECUTIVE SUMMARY

Executive Summary

Key Tabs	Comments
I. Market Update	
II. Cambridge Associates Report On UH Portfolio (Information Only)	
a. UH Performance & Asset Allocation	After the historic drawdown in Q1 2020, the markets rebounded in an equally historic rally in Q2. The UH portfolio has returned -2.9% CYTD 2020. In relative terms the total portfolio trailed the policy benchmark by 40 bps, while the total marketable portfolio (-3.7%) outperformed the marketable benchmark by 30 bps. The total portfolio is outperforming the policy benchmark over the trailing 3 and 5 year periods.
b. Private Investments Update	We review the private performance in the first half of 2020 as well as look forward at possible future recommendations
III. Cambridge Associates Recommendations (Action Items)	
a. US Equity Manager Recommendations	For Approval: We recommend a full redemption (~$39.4m) from Gotham Hedged Value with a subsequent $30.0m addition to NT 1000 Index Fund.
b. Endowed Pool Fixed Income Recommendations	For Approval: We recommend the following trades: $26.0m partial redemption from Smith Graham, as well as $17.0m initial investments into both PIMCO Income Fund and Loomis Sayles.
IV. Appendix	

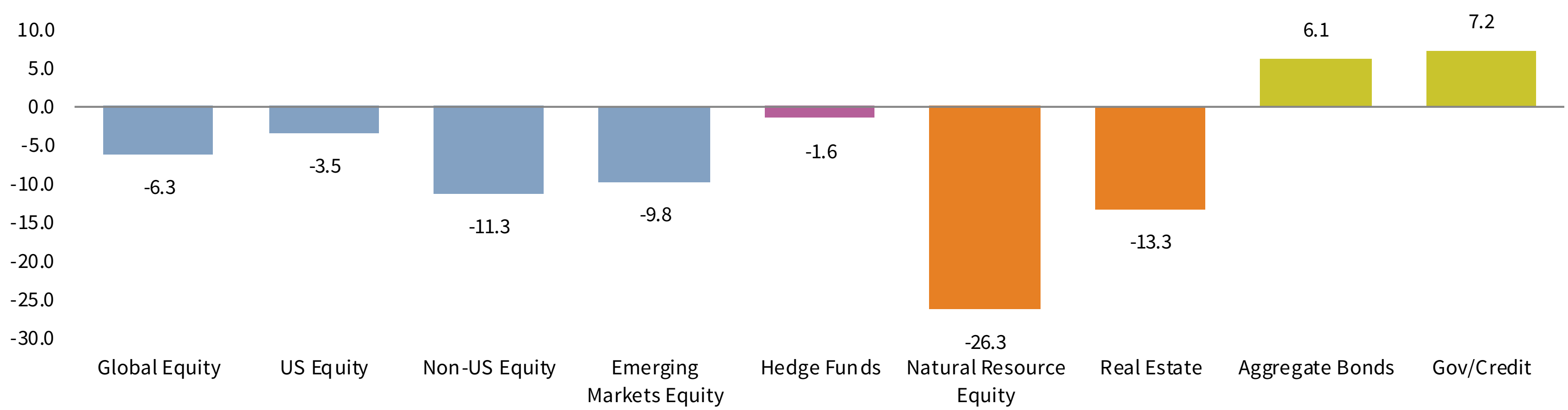
I. Market Update
(Info Only)

Q2 rebounds from COVID lows

CYTD equity returns muted, bonds continue to shine

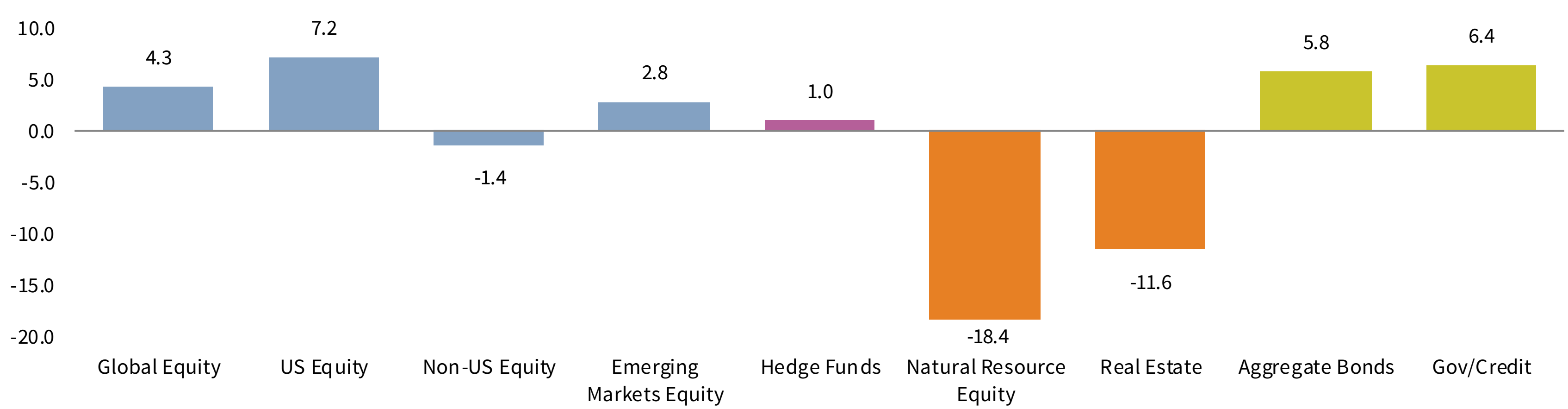
CYTD 2020 PERFORMANCE

January 1, 2020 - June 30, 2020



FYTD 2020 PERFORMANCE

September 1, 2019 - June 30, 2020



Notes: Indices from left to right are as follows: MSCI All Country World Index (Net), Russell 3000® Index, MSCI EAFE Index (Net), MSCI Emerging Markets Index (Net), Hedge Fund Research Fund of Funds Composite Index, S&P North American Natural Resources Sector Index, FTSE® NAREIT All Equity REITs Index, Bloomberg Barclays Aggregate Bond Index, Bloomberg Barclays Government/Credit Bond Index.

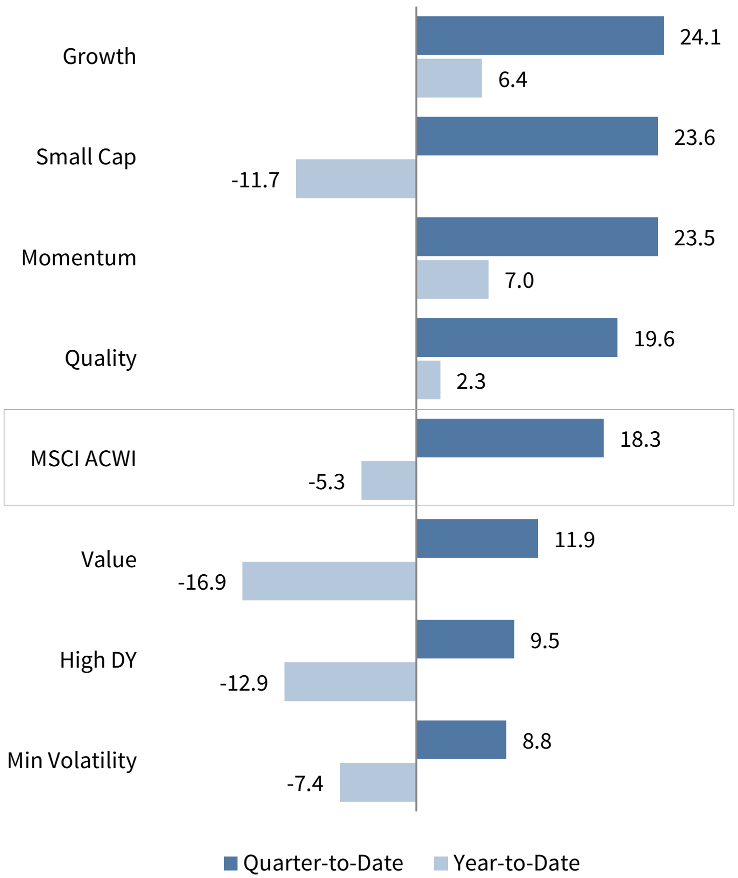
Not your average bear

Growth has proved defensive, as TMT and healthcare stocks enjoyed gains, whereas value stocks and old economy sectors have struggled

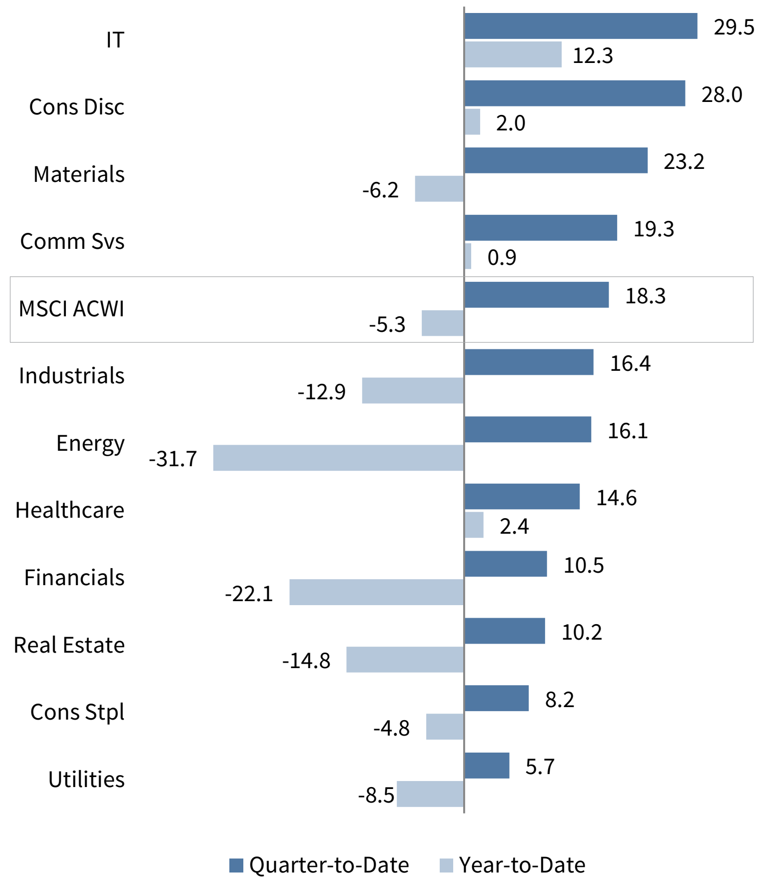
GLOBAL EQUITY PERFORMANCE BY STYLE/FACTOR & GICS SECTOR

As of June 30, 2020 • Local Currency • Percent (%)

ACWI Style/Factor



ACWI GICS Sectors



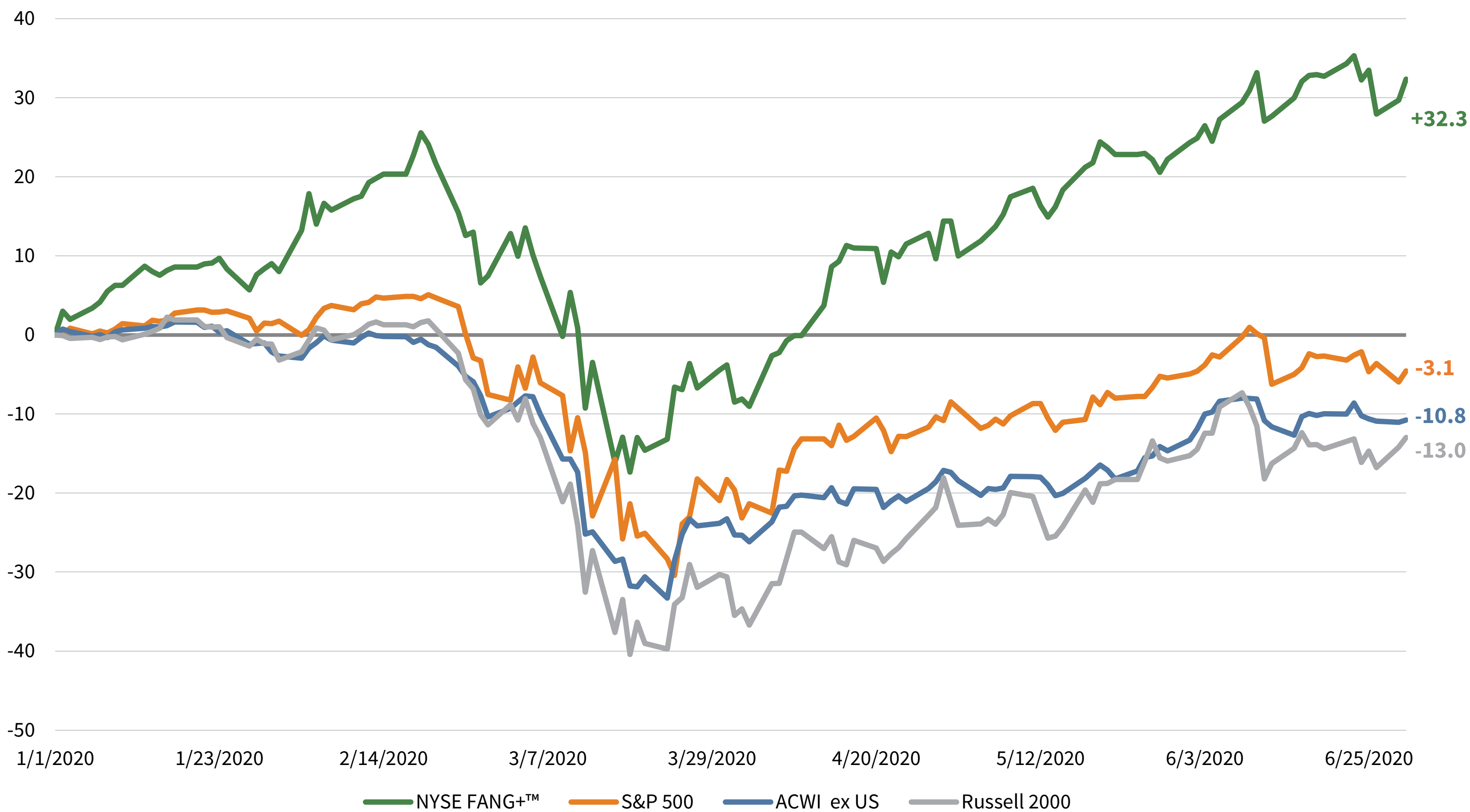
Sources: MSCI Inc. and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.
Note: Total return data for all MSCI indexes are net of dividend taxes.
MMHC

FANGs have reigned supreme

The slight value tilt in the ARCF portfolio has been hurt by the outperformance of a few, growth-oriented stocks

YTD CUMULATIVE RETURN OF NYSE FANG+™, S&P 500, MSCI ACWI EX US, AND RUSSELL 2000

December 31, 2019 – June 30, 2020 • US Dollar • Percent (%)



Sources: MSCI Inc., New York Stock Exchange, Standard & Poor's, and Thomson Reuters Datastream. MSCI data provided "as is" without any express or implied warranties.

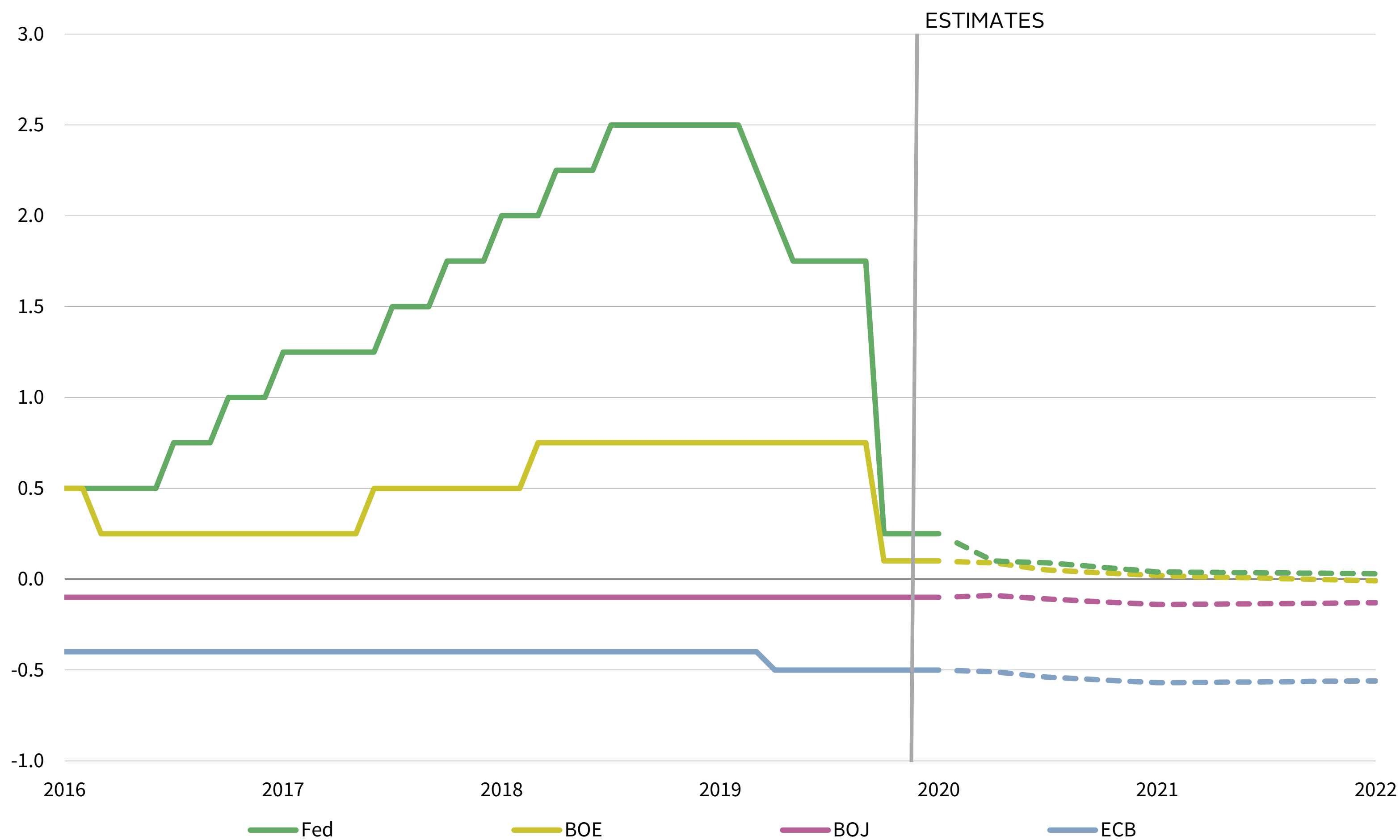
Notes: Cumulative return data are daily total returns gross of dividend taxes. NYSE FANG+™ is an equal-weighted index that provides exposure to a select group of highly traded growth stocks of next generation technology and tech-enabled companies that includes Alibaba, Amazon, Apple, Baidu, Facebook, Google, Netflix, NVIDIA, Tesla, and Twitter.

Please, sir, I want some more

Policy bazooka helped fuel sharp initial recovery, but more is likely needed and the options are limited

G4 GLOBAL POLICY RATES

June 30, 2016 – June 30, 2022 • Percent (%)



Sources: Bank of England, Bank of Japan, Bloomberg L.P., European Central Bank, Federal Reserve, Goldman Sachs, and Thomson Reuters Datastream.

Notes: Discretionary fiscal stimulus are based on Goldman Sachs calculations and include policy actions taken since the outbreak that lead to either higher government expenditures or lower tax receipts. China figure is based on GS estimates of expected discretionary fiscal stimulus. Euro Area fiscal policy actions represent that of the four largest economies: Germany, France, Italy, and Spain. G4 policy rate data are as of June 30, 2020, and estimated thereafter. Policy rate estimates are based on Bloomberg market implied rates.

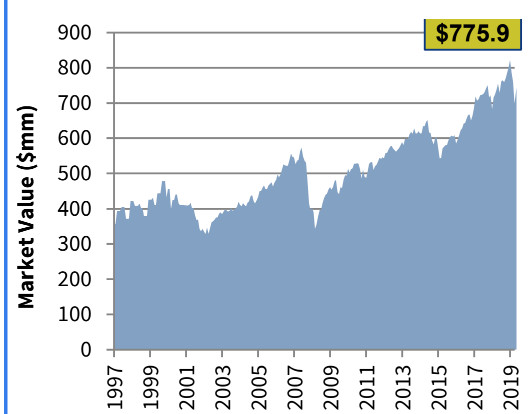
MMHC

A. UH PERFORMANCE & ASSET ALLOCATION

UH portfolio dashboard

UH total portfolio has returned -2.9% CYTD 2020, underperforming the policy benchmark by 40 bps. The portfolio is outperforming over the trailing 3 and 5 year periods

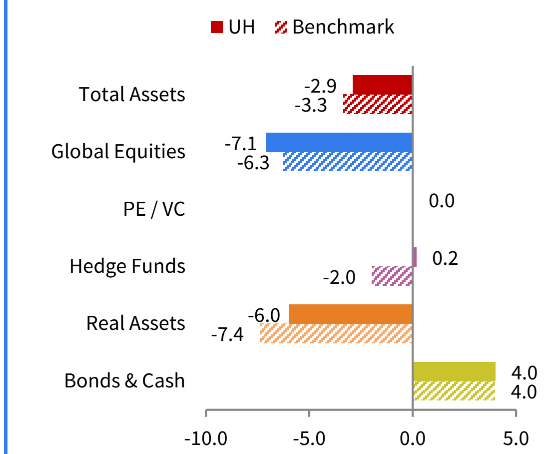
Portfolio Market Value



Performance Summary – Total Portfolio

	CY 2020 12/31/2019-6/30/2020	FY 2020 9/1/2019-6/30/20	Annualized Trailing 3 Years	Annualized Trailing 5 Years
Total Portfolio	**-2.9**	**-2.5**	**6.1**	**5.0**
Policy BM	-3.3	-2.5	5.3	4.8
Total Marketable Assets	**-3.7**	**-6.8**	**4.4**	**3.9**
Marketable Policy BM	-4.0	-6.6	4.4	4.0
Peer Mean[1]	-5.1	---	4.5	4.6

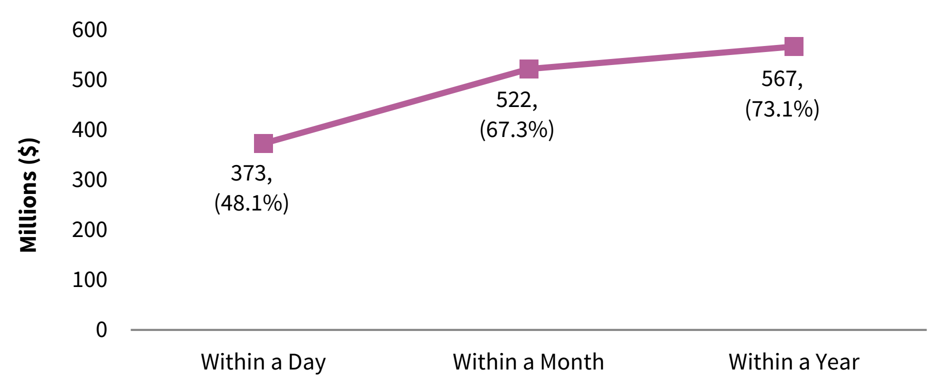
CY 2020 Asset Class Returns



Asset Allocation: Actual, Targets, and Allowable Ranges

	Actual Allocation	Near-Term Targets	Long-Term Targets	Allowable Ranges
Global Equities	46%	46%	45%	35-55%
Hedge Funds	8%	15%	5%	0-10%
Private Equity / Venture Capital	18%	17%	25%	10-35%
Real Assets	10%	10%	10%	5-15%
Bonds and Cash	17%	12%	15%	5-20%

Liquidity



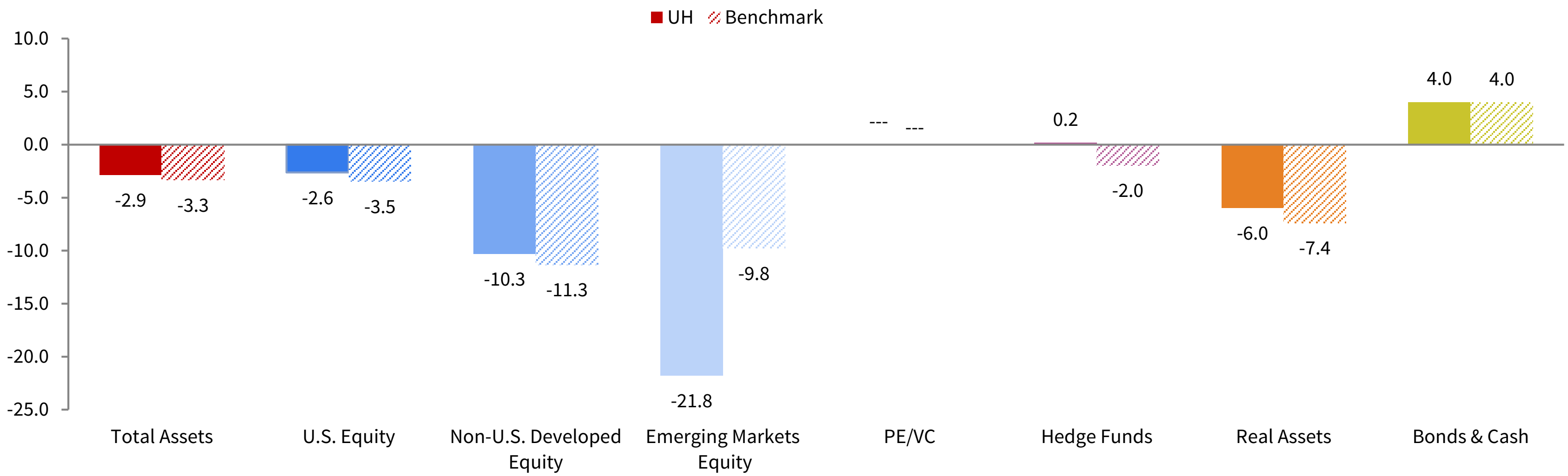
Note: UH portfolio market value includes private investment values as of December 31, 2019.

[1] Peer data performance represents the universe of UH peers that C|A covers for performance reporting and not the entire peer universe as seen on the CompAA.

CYTD 2020 UH performance & attribution

Hedge funds & fixed income have done their jobs in CYTD 2020, protecting the portfolio relative to large negative equity returns; value exposure within the equity allocation hurt on a relative basis

UH Performance vs. Benchmarks (%) as of June 30, 2020



	Absolute Return	Relative To Asset Allocation Benchmark
Calendar Year 2020 Result	-2.9%	-0.4%
Key Contributors	• Bonds & Cash (Smith Graham) • Private Investments Lag	• Real Assets (T. Rowe Price) • US Equity (Columbia)
Key Detractors	• Non-US Developed Equity (Silchester, Global Alpha) • Emerging Markets Equity (Oldfield, Edgbaston)	• Emerging Markets Equity (Oldfield, Edgbaston)

Note: Total Assets represents the University's actual performance versus the Policy Benchmark. Asset class benchmarks: U.S. Equity (Russell 3000), Non-U.S. Developed Equity (MSCI EAFE (Net)), Emerging Markets Equity (MSCI Emerging Markets (Net)), PE/VC (no benchmark), Hedge Funds (HFRI FoF Composite), Real Assets (25% BBG Barc US TIPs, 25% MSCI World Nat Resources, 25% MSCI US REIT, 25% BBG Barc Commodity), Bonds & Cash (Dynamic blend of BBG Barc Agg Intermediate and BofA ML 91 Day T-BIll). Private investment returns as of 12/31/2019.

University of Houston cash flows by category

As of June 30, 2020

Period	Beginning Market Value	Net Withdrawals	Earned Income	Unrealized Gains/Loss	Management Fees	Ending Market Value
						($000)
2012	$486,853	$10,962	$19,227	$42,164	-$3,798	$555,408
2013	$555,408	-$42,572	$35,492	$40,892	-$3,885	$585,336
2014	$585,336	$9,127	$44,772	-$24,157	-$4,495	$610,582
2015	$610,582	-$24,614	$49,433	-$61,636	-$3,678	$570,086
2016	$570,086	-$16,937	$24,526	$7,660	-$4,666	$580,670
2017	$580,670	$7,757	$34,341	$61,495	-$5,011	$679,252
2018	$679,252	$26,657	$32,659	-$50,434	-$4,834	$683,300
2019	$683,300	$17,003	$33,763	$86,927	-$6,372	$814,623
2020	$814,624	-$23,123	$249	-$28,644	-$3,206	$759,900

- Since 2012 the Endowment has:
  - added $195 million in new gifts,
  - generated $275 million in realized/unrealized gains,
  - distributed $161 million to the beneficiary accounts, and
  - paid $40 million in portfolio expenses.

Note: Data provided by the University of Houston Office of the Treasurer. Ending market value may differ from C|A stated value due to timing of updating the private investments marks.

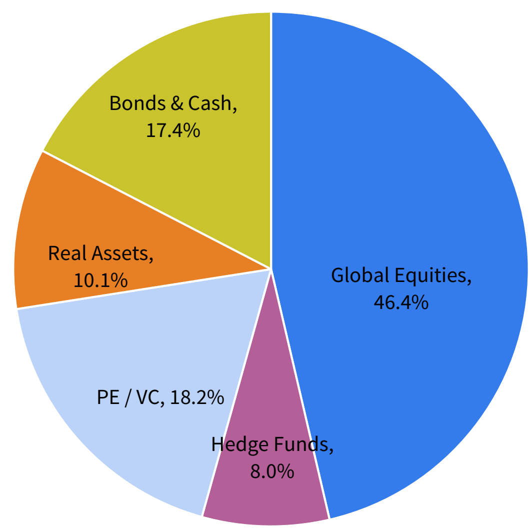
Asset allocation summary

The UH portfolio ended Q2 2020 very close to long-term target weights

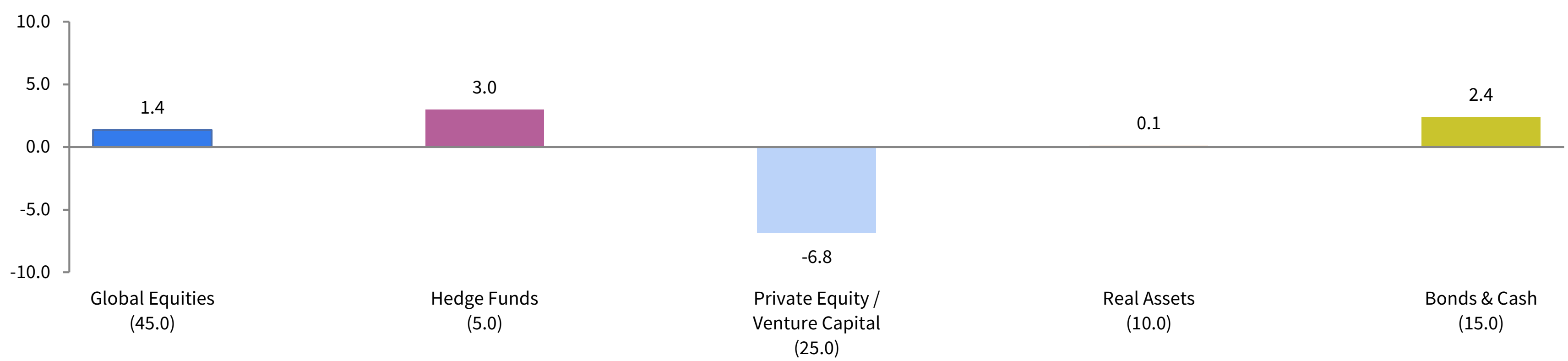
Asset Allocation ($ Millions)

Asset Class	MV ($mm)	Current (%)	NT Target (%)	LT Target (%)
Global Equities	$359.6	46.4	46.0	45.0
Hedge Funds	$61.9	8.0	15.0	5.0
PE / VC	$141.1	18.2	17.0	25.0
Real Assets	$78.4	10.1	10.0	10.0
Bonds & Cash	$134.9	17.4	12.0	15.0
Total	**$775.9**	**100.0**	**100.0**	**100.0**

Asset Allocation as of June 30, 2020



Relative Weights versus Long-Term Targets (%)



Note: Target allocation in parentheses.

Endowed pool trade summary

- At the Q1 meeting a new long-term hedge fund target in the Endowed Pool was adopted, reducing the policy exposure to 5% from a previous target of 20%.
- It was decided that this reduction would take place over the course of 2020 as liquidity terms allow.
- Below is the summary of approved hedge fund transactions and a summary of timing of the trades:

Manager Type	Manager	Investment Type	Amount	Timing of Initial Redemption	Executed?
Long / Short Equity	Lakewood	Partial Redemption	$9.0mm	Q2 2020	June 2020
	SRS	Partial Redemption	$6.0mm	Q2 2020	June 2020
	Coatue	Full Redemption	~$16.7mm	Q2 2020	June 2020
Multi-Strategy	Davidson Kempner	Partial Redemption	$5.0mm	Q2 2020	June 2020
	HBK	Partial Redemption	$3.0mm	Q2 2020	June 2020
	Standard Life GARS	Partial Redemption	$9.0mm	Q1 2020	March 2020
Global Macro	AQR	Full Redemption	~$12.5mm	Q1 2020	March 2020
	ISAM	Full Redemption	~$8.9mm	Q1 2020	March 2020
Distressed/Credit	Anchorage	Full Redemption	~$10.8mm	Q4 2020	---

C|A

Executed trades noted through July 31, 2020.

Reinvestment of hedge fund proceeds status

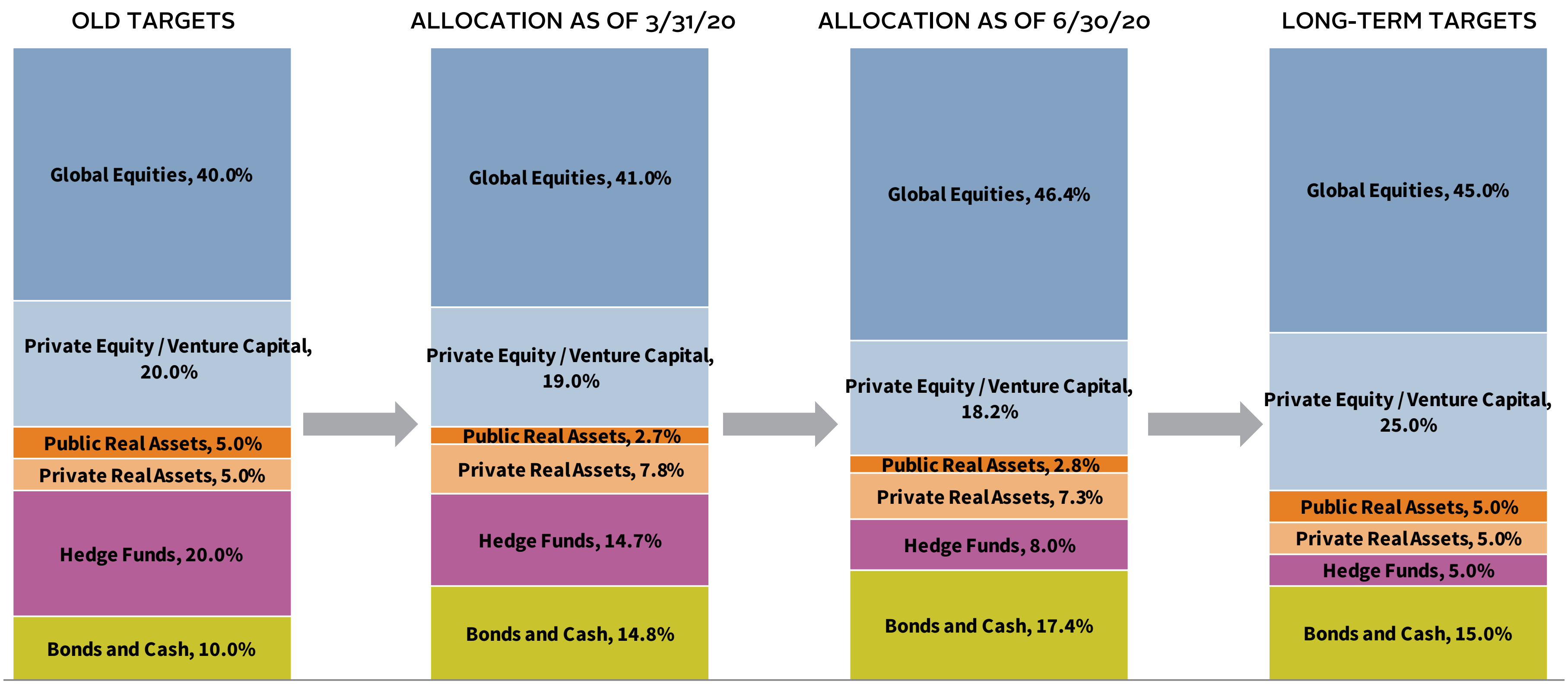
- The following transactions to reinvest the hedge fund proceeds across the portfolio were approved at the Q1 meeting and have been completed as of the end of July.

Manager Type	Manager	Investment Type	Approved Amount	Amount Invested	Date Invested	Amount Remaining
US Equity	NT Russell 1000 Index	Additional Investment	$14.0mm	$14.0mm	March & July 2020	---
	Columbia	Additional Investment	$6.0mm	$6.0mm	March & July 2020	---
	Gotham	Additional Investment	$6.0mm	$6.0mm	May 2020	---
	Vulcan	Additional Investment	$6.0mm	$4.0mm	March & July 2020	---
Non-US Developed Equity	William Blair	Additional Investment	$4.0mm	$4.0mm	March & July 2020	---
	Global Alpha	Additional Investment	$4.0mm	$4.0mm	July 2020	---
Emerging Markets Equity	Oldfield	Additional Investment	$2.0mm	$2.0mm	March 2020	---
	Somerset	Additional Investment	$2.0mm	$2.0mm	July 2020	---
	Edgbaston	Additional Investment	$2.0mm	$2.0mm	March 2020	---

Executed investments through July 30, 2020.

Asset allocation update

- The trades made in Q1 and Q2 have moved us closer to the long-term targets approved at the February meeting.



UH pro forma

	June 30, 2020		Estimated Returns/Flows		Estimated July 31, 2020		Q3 2020			Q4 2020			Interim Target	LT Target	Ranges
	NAV	% of Total	Return	Add	NAV	% of Total	Add	NAV	% of Total	Add	NAV	% of Total	% of Total	% of Total	% of Total
Total Assets	775.8	100.0%	3.0%	---	799.1	100.0%	---	799.1	100.0%	---	799.1	100.0%	100.0%	100.0%	
Public Equity	359.6	46.4%	5.9%	14.0	394.8	49.4%	-9.4	385.4	48.2%	---	385.4	48.2%	46.0%	45.0%	35-55%
US Equity	200.9	25.9%	6.4%	12.0	225.7	28.2%	-9.4	216.3	27.1%	---	216.3	27.1%			20-35%
NT Russell 1000 Index	63.4	8.2%	5.9%	4.0	71.1	8.9%	30.0	101.1	12.7%		101.1	12.7%			
Columbia	50.7	6.5%	7.9%	2.0	56.8	7.1%		56.8	7.1%		56.8	7.1%			
Gotham	34.4	4.4%	5.9%	3.0	39.4	4.9%	-39.4	---	---		---	---			
Vulcan	51.1	6.6%	5.9%	3.0	57.1	7.1%		57.1	7.1%		57.1	7.1%			
Cougar Investment Fund	1.3	0.2%	5.3%		1.4	0.2%		1.4	0.2%		1.4	0.2%			
Non-US Equity	129.0	16.6%	4.5%	2.0	136.8	17.1%	---	136.8	17.1%	---	136.8	17.1%			10-20%
Silchester	56.2	7.2%	2.3%		57.5	7.2%		57.5	7.2%		57.5	7.2%			
William Blair	50.2	6.5%	7.4%	1.0	55.0	6.9%		55.0	6.9%		55.0	6.9%			
Global Alpha	22.6	2.9%	3.4%	1.0	24.4	3.1%		24.4	3.1%		24.4	3.1%			
Emerging Markets Equity	29.7	3.8%	8.6%	---	32.2	4.0%	---	32.2	4.0%	---	32.2	4.0%			5-15%
Oldfield	10.3	1.3%	8.9%		11.2	1.4%		11.2	1.4%		11.2	1.4%			
Somerset	10.6	1.4%	8.9%		11.5	1.4%		11.5	1.4%		11.5	1.4%			
Edgbaston	8.8	1.1%	7.9%		9.5	1.2%		9.5	1.2%		9.5	1.2%			
Private Investments	141.1	18.2%	---	---	141.1	17.7%	---	141.1	17.7%	---	141.1	17.7%	17.0%	25.0%	10-35%
Total Private Equity/VC	141.1	18.2%	---		141.1	17.7%		141.1	17.7%		141.1	17.7%			
Hedge Funds	61.9	8.0%	1.9%	---	63.0	7.9%	---	63.0	7.9%	-10.9	52.1	6.5%	15.0%	5.0%	0-10%
Real Assets	78.4	10.1%	0.6%	---	78.8	9.9%	---	78.8	9.9%	---	78.8	9.9%	10.0%	10.0%	5-15%
Public Real Assets	21.5	2.8%			22.0	2.7%	---	22.0	2.7%	---	22.0	2.7%			2-8%
Vanguard Real Estate	10.4	1.3%	3.6%		10.7	1.3%		10.7	1.3%		10.7	1.3%			
T. Rowe Price	11.2	1.4%	0.6%		11.2	1.4%		11.2	1.4%		11.2	1.4%			
Private Real Assets	56.8	7.3%	---		56.8	7.1%		56.8	7.1%		56.8	7.1%			5-12%
Bonds and Cash	134.9	17.4%	0.3%	-14.0	121.4	15.2%	9.4	130.7	16.4%	10.9	141.7	17.7%	12.0%	15.0%	5-20%
Bonds															
Smith Graham Intermediate Agg	82.6	10.6%	0.6%	12.0	95.0	11.9%	-26.0	69.0	8.6%		69.0	8.6%			
PIMCO Dynamic Bond Fund	---	---	---		---	---	17.0	17.0	2.1%		17.0	2.1%			
Loomis Sayles	---	---	---		---	---	17.0	17.0	2.1%		17.0	2.1%			
Cash															
Cash & Equivalents	52.3	6.7%	---	-26.0	26.3	3.3%	1.4	27.7	3.5%	10.9	38.6	4.8%			

Trades highlighted in gray have been approved/executed. Trades highlighted in Green/Orange are being recommended.

UH hedge fund pro forma

	June 30, 2020		Estimated Returns/Flows		Estimated July 31, 2020		Q3 2020			Q4 2020			Interim Target	LT Target	Ranges
	NAV	% of Total	Return	Add	NAV	% of Total	Add	NAV	% of Total	Add	NAV	% of Total	% of Total	% of Total	% of Total
Hedge Funds	**61.9**	**8.2%**	**1.9%**	**---**	**63.0**	**8.1%**	**---**	**63.0**	**8.1%**	**-10.9**	**52.1**	**6.7%**	**15.0%**	**5.0%**	**0-10%**
Long/Short Equity	**14.0**	**1.9%**	**2.1%**	**---**	**14.3**	**1.8%**	**---**	**14.3**	**1.8%**	**---**	**14.3**	**1.8%**			
U.S.															
Lakewood	3.8	0.5%	2.1%		3.8	0.5%		3.8	0.5%		3.8	0.5%			
Global															
SRS Partners	10.2	1.4%	2.1%		10.4	1.3%		10.4	1.3%		10.4	1.3%			
Absolute Return	**47.9**	**6.4%**	**1.9%**	**---**	**48.8**	**6.3%**	**---**	**48.8**	**6.3%**	**-10.9**	**37.8**	**4.9%**			
Event Driven/Credit	**25.8**	**3.4%**	**2.1%**	**---**	**26.4**	**3.4%**	**---**	**26.4**	**3.4%**	**-10.9**	**15.4**	**2.0%**			
Davidson Kempner	15.1	2.0%	2.1%		15.4	2.0%		15.4	2.0%		15.4	2.0%			
Anchorage	10.7	1.4%	2.1%		10.9	1.4%		10.9	1.4%	-10.9	---	---			
Multi-Strategy	**22.0**	**2.9%**	**1.6%**	**---**	**22.4**	**2.9%**	**---**	**22.4**	**2.9%**	**---**	**22.4**	**2.9%**			
HBK	15.9	2.1%	2.1%		16.2	2.1%		16.2	2.1%		16.2	2.1%			
GARS	6.1	0.8%	0.2%		6.1	0.8%		6.1	0.8%		6.1	0.8%			
Holdbacks/Sidepockets	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**	**---**			

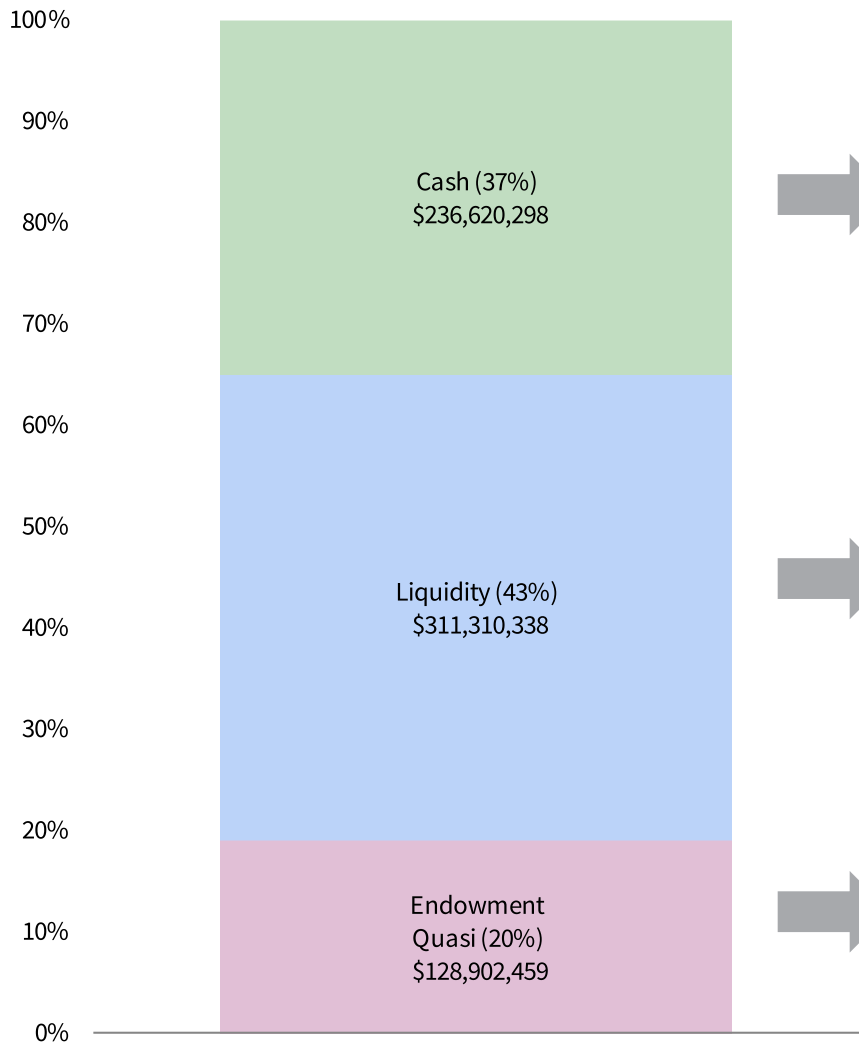
Note: Anchorage will be fully redeemed at the end of Q4.

Non-endowed fund composition

UH's non-endowed fund is diversified across cash & liquidity pools and the endowment

UH NON-ENDOWED ASSETS

As of June 30, 2020



- Used for daily cash needs
- Overnight sweep T-Bills
- Cash rate of return
- Managed by Morgan Stanley
- Duration: 0.0 Years

- Used for excess cash
- Diversified across fixed income spectrum
- Low to mid single-digit rate of return
- Managed by J.P. Morgan, Breckinridge, PIMCO, & Loomis Sayles
- Duration: 3.4 Years

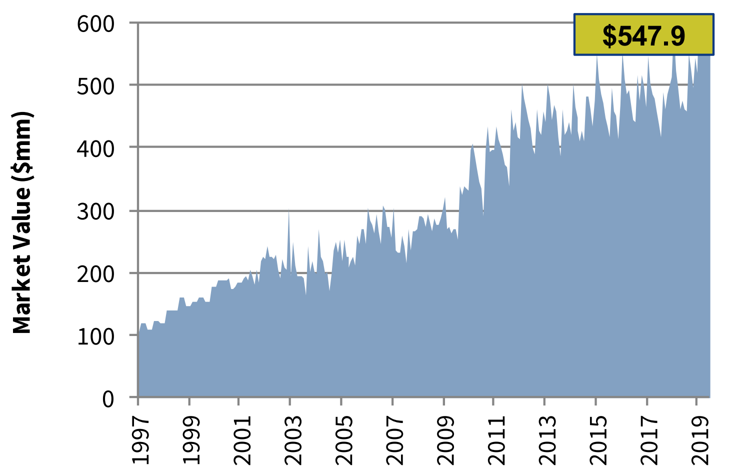
- Non-endowed funds deemed to be permanent
- Must stay invested for 5 years
- Managed by Cambridge Associates
- Perpetual, Long-Term Expected Return: ~6% Real

Note: As of June 30, 2020.

UH non-endowed portfolio dashboard

As of June 30, 2020

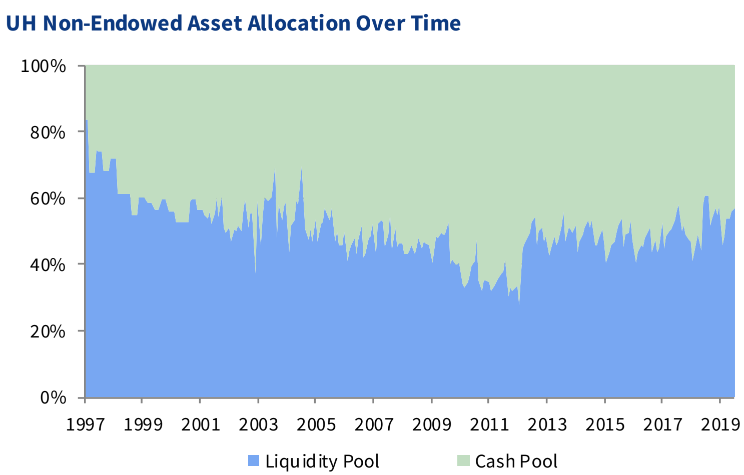
Portfolio Market Value



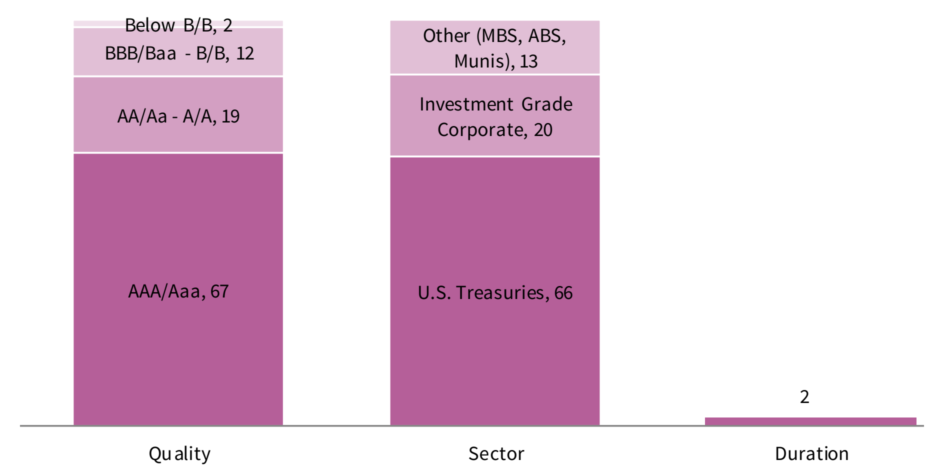
Performance Summary – Total Non-Endowed Portfolio

	CY 2020 12/31/19-6/30/2020	FY 2020 9/1/2019 - 6/30/20	Annualized Trailing 3 Years	Annualized Trailing 5 Years
Total Non-Endowed	**2.6**	**3.2**	**2.7**	**1.8**
Non-Endowed Policy Benchmark	2.3	2.7	2.6	1.8
Total Cash Pool	**0.4**	**1.2**	**1.6**	**1.0**
BofA ML 91-Day T Bills	0.6	1.2	1.8	1.2
Total Liquidity Pool	**4.5**	**4.9**	**3.6**	**2.5**
BofA ML 1-5 Year Gov/Credit AA+	4.0	4.2	3.3	2.4
BofA ML 1-5 Year Gov/Corp Index	3.8	4.2	3.5	2.6

Asset Allocation Over Time



Portfolio Characteristics



Note: Does not include quasi-endowed funds. Total non-endowed policy benchmark consists of the BofA ML 91-Day T-Bills and a 50/50 blend of the BofA ML 1-5 Year Government/Credit AA+ Index and the BofA MLP 1-5 Year Government/Corporate Bond Index, weighted to each asset class' proportionate share of total assets.

B. PRIVATE INVESTMENTS UPDATE

Current Private Investments Snapshot

The University of Houston's Private Investments (PI) program has produced an attractive 12.9% net IRR since inception.

Private Investments Exposure in $ millions (As of Q1 2020 Plus Recent Commitments)					
	NAV	**Unfunded**	**Distributions***	**NAV as a Percent of Total Endowment (3/31/20)**	**NAV as a Percent of Total Endowment (6/30/20)****
Venture Capital	49.6	41.4	25.4	7.3%	6.6%
Private Equity	63.8	64.6	47.9	9.3%	8.7%
Secondaries	16.5	26.9	11.3	2.4%	2.1%
Real Estate	24.7	33.2	27.0	3.6%	3.5%
Natural Resources	23.8	27.0	41.0	3.5%	3.2%
Total	**178.4**	**193.1**	**152.7**	**26.1%**	**24.1%**

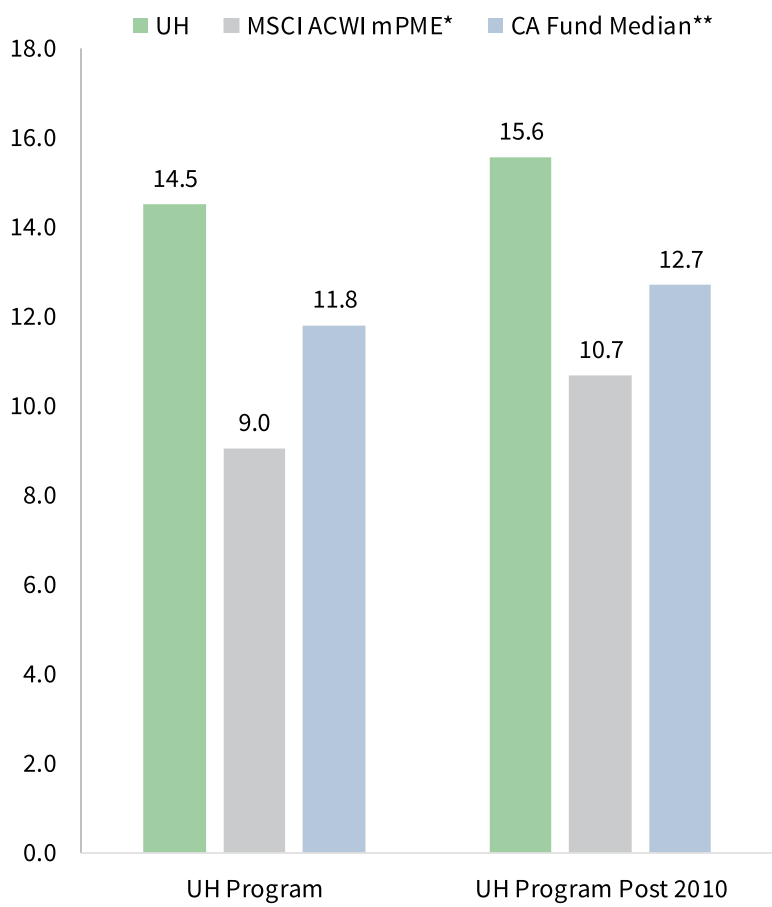
- The portfolio was marked down 7.3% in Q1 compared to ~21% for public markets. However, the rebound in public markets in Q2 (+19% for the MSCI ACWI) leads us to believe there will be some recovery in the PI portfolio as well.
  - As expected, natural resources (-16.1%) were the primary detractors in Q1.
  - We expect many of the funds to recover significantly in the second quarter. For example, Advent, which was marked down substantially in Q1, has indicated that valuations will fully rebound in Q2.

Note: Recent commitments include Silver Lake Partners VI ($7.0M).
*Total Paid in Capital for the active portfolio was $249.7M as of Q1 2020. Distributions have amounted to 61.1% of paid in capital.
**June 30, 2020 private investment allocation is based on NAV as of March 31, 2020, updated with capital calls and distributions through June 30, 2020.
Source: Cambridge Associates preliminary performance report for the University of Houston, as of Q1 2020. Numbers may not add up due to rounding.

Private Investment Comparative Performance

The UH private investment program returns have been strong on both an absolute and relative basis.

SINCE INCEPTION PERFORMANCE
As of December 31, 2019 • Net IRR (%)



COMPARATIVE PERFORMANCE VS. CA PRIVATE INVESTMENT CLIENTS
As of December 31, 2019 • Net IRR (%)

	3 Years	5 Years
CA Client PI Returns		
Upper 90th percentile	18.4	15.0
Upper Quartile	15.3	12.7
Median	12.3	10.2
Lower Quartile	9.2	7.7
Bottom 10th percentile	6.5	5.5
n=	*519*	*488*
UH Program Post 2010	**16.7**	**15.1**
*MSCI ACWI mPME**	*12.5*	*10.7*

The current private investment program (excluding pre-2010 funds) has generated top quartile returns for the trailing 3-year period and top decile returns for the trailing-5 year period when compared to the universe of CA Private Investment clients.

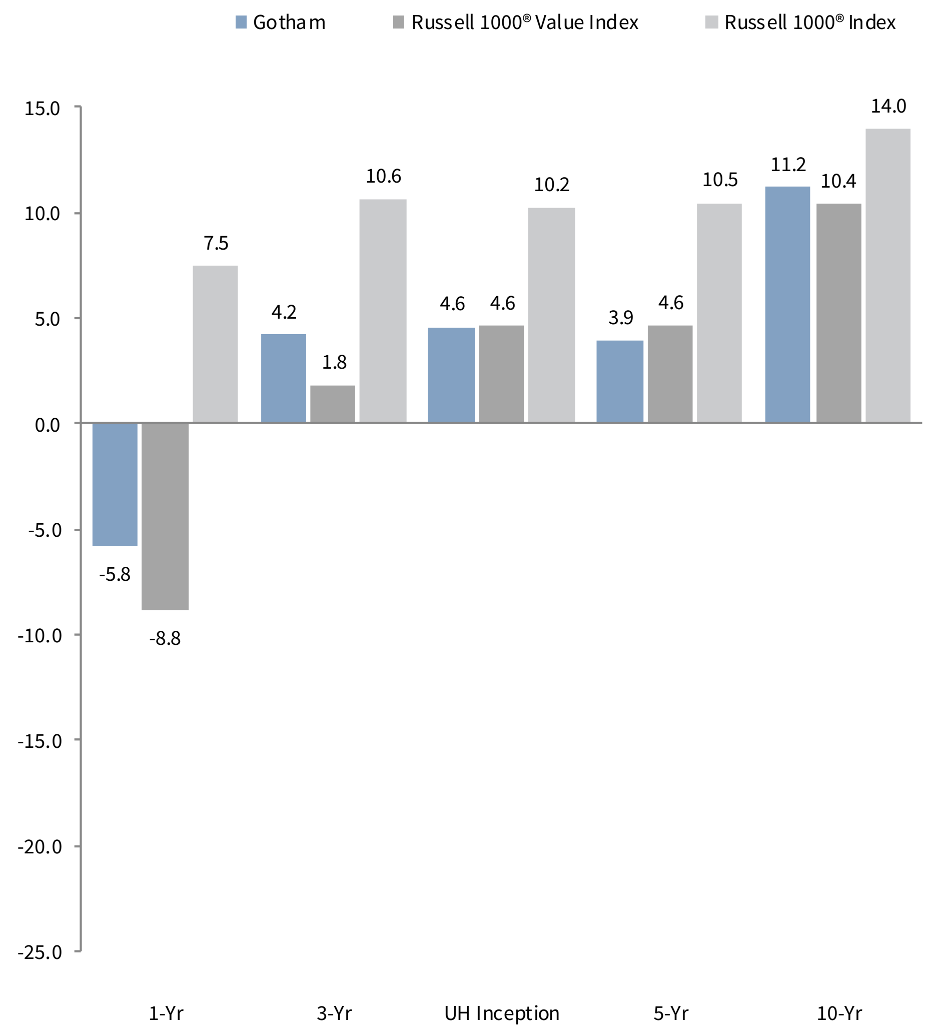
Note: CA Client Private Investment Returns includes private investment fund programs with a least 10 private investment funds per portfolio who receive performance reports as of 12/31/2019. Terminated client returns are not included due to unavailability of data. The performance of CA's clients may be attributable to factors other than CA's advice because CA's clients may or may not follow this advice. Similarly, client returns shown may include investments made prior to client's relationship with CA. Past performance is not necessarily a guide to future performance. The performance data is net of investment managers' fees but has not been adjusted to reflect CA's advisory fees and other expenses that a client may incur.
*CA's modified Public Market Equivalent (mPME) is an in-house methodology that provides a private to public comparison framework that replicates the private investment reference fund under public market conditions (per a given index). Under mPME, actual private contributions are invested in the given public market index and distributions are calculated in proportion as in the private investment reference fund, with the corresponding NAV a function of the mPME cash flows.
**CA's asset class and portfolio benchmark means are a pooled return of funds sorted by designated asset group and the funds' inception dates weighted by member's paid-in capital to each asset class vintage year. All benchmarks are in U.S. Dollars.

A. US EQUITY MANAGER RECOMMENDATION

Gotham Hedged Value recommendation

- Gotham is a 140/40 active extension US Equity strategy with 100% net long exposure and a significant value bias.
- UH has been invested in Gotham since July 2015.
- While the manager has performed well relative to the Russell 1000 Value Index, underperformance relative to the broader market has been material.
- This underperformance has put pressure on assets under management and firm AUM has decreased from ~$6.0B in 2017 to ~$2.0B.
- While we still see the longer term efficacy of their approach, the stylistic headwinds they face in the marketplace have negatively impacted not only returns, but the business over the past several years.
- **Recommendation:**
  - Full redemption from Gotham Hedged Value (~$39.4m) and use proceeds to add to the NT Russell 1000 Index Fund.

PERFORMANCE (ANNUALIZED)
As of June 30, 2020



B. ENDOWED POOL FIXED INCOME RECOMMENDATIONS

Endowed pool fixed income portfolio recommendations

- Based on the new policy targets approved in Q1 2020, the bond allocation is increasing from 10% to 15%. While we will continue to maintain a core position in Smith Graham's Intermediate Aggregate strategy, we believe supplementing the current exposure with managers who are more opportunistic in their approach makes sense.
- <u>Recommendations:</u>
  - $26.0m partial redemption from Smith Graham Intermediate Aggregate Bond Fund
  - $17.0m initial investment in Loomis Sayles
  - $17.0m initial investment in PIMCO Total Return Fund
- Both of these managers were recommended and approved by the committee in April 2019 for the Non-Endowed Pool.

Name & product	Description	Benchmark	Fees	Vehicle	Liquidity
Loomis Sayles – Loomis Sayles Core Plus Full Discretion Strategy	Opportunistic, value-oriented U.S. core plus bond strategy that looks through the credit spectrum for deeply discounted bonds with a strong yield advantage. They do not make large duration calls relative to the benchmark.	BBG Barc Govt/ Credit Bond Index	0.40%	Mutual Fund (LSIGX)	Daily
Pacific Investment Management Company – PIMCO Dynamic Bond Strategy	Absolute return strategy that should provide more return potential and also protect on the downside. The strategy can move to shorter or longer duration depending on the opportunity set.	LIBOR – 3 Month	0.80%	Mutual Fund (PFIUX)	Daily

Comparative asset allocation

Colleges & Universities, $500m - $1.0bn with Less Than 20% Endowment Reliance; as of March 31, 2020

Institution	U.S. Equity	Non- US Dev. Equity	Emerging Mkts Equity	PE & VC[1]	Hedge Funds[2]	Public Real Assets[3]	Bonds[4]	Cash & Equivalents	Other[5]	AACRs (%) 1 Year	AACRs (%) 3 Years	AACRs (%) 5 Years
1	22.9	11.1	---	22.0	19.2	3.4	17.8	3.1	0.6	-3.7	3.0	3.2
2	41.0	6.4	5.3	15.8	15.3	5.9	8.2	2.2	---	-5.8	3.3	3.8
3	26.5	19.2	5.0	24.6	11.4	1.8	10.2	1.3	---	-7.2	1.3	2.1
4	33.1	14.3	6.9	21.0	16.3	---	6.7	1.8	---	-5.6	3.1	3.5
5	10.7	11.2	6.4	40.2	27.5	---	---	4.0	---	-2.2	5.9	4.8
6	15.5	11.2	10.3	40.3	9.3	3.0	9.8	0.5	---	.0	5.0	5.4
7	27.9	17.5	5.2	21.7	9.0	5.5	9.6	3.6	---	-5.6	1.5	2.9
8	11.3	9.3	5.2	48.9	8.9	1.4	7.3	7.5	0.3	-.6	4.6	4.8
9	19.5	15.8	2.7	35.6	16.5	2.4	4.6	3.0	---	-7.4	1.1	1.9
10	20.8	14.9	3.4	24.1	30.7	---	---	6.0	---	.9	5.6	4.6
11	22.0	17.1	4.8	37.1	7.7	1.7	4.3	5.3	---	-4.5	2.9	3.2
12	20.8	7.3	4.2	25.6	29.2	---	7.5	4.0	1.4	-3.7	1.8	2.5
University of Houston System	22.4	15.5	3.3	26.8	14.7	2.7	11.7	3.2	---	-5.0	3.1	2.8
Key Peers Mean	22.7	12.9	5.0	29.7	16.8	2.1	7.2	3.5	0.2	-3.8	3.2	3.6
n=12										*n=12*	*n=12*	*n=12*
C&U Mean	21.0	13.6	6.5	24.6	18.0	2.3	10.0	3.4	0.7	-5.1	2.9	3.3
n=142										*n=142*	*n=142*	*n=141*
Institutional Mean	22.6	14.6	6.7	18.8	18.1	2.3	12.5	3.9	0.5	-5.6	2.4	3.0
n=413										*n=413*	*n=406*	*n=399*

Colleges & Universities $500M - $1.0B With Less Than 20% Endowment Reliance		
American University	Oberlin College	University of Tennessee
Clemson University Foundation	Pepperdine University	Villanova University
Florida State University Foundation	Rensselaer Polytechnic Institute	William & Mary Foundation
Northeastern University	Santa Clara University	Yeshiva University

1. Includes Distressed Private Equity structure vehicles, Other Private Investments, Private Real Estate, Private Oil & Gas / Natural Resources, and Timber.
2. Includes Distressed Hedge Fund Structure Vehicles, Long/Short Hedge Funds, Absolute Return Hedge Funds.
3. Includes Public Real Estate, Commodities, Inflation-Linked Bonds, and Public Energy / Natural Resources.
4. Includes High Yield Bonds, US Bonds, Developed Market Bonds, Emerging Markets Bonds.
5. Includes assets that cannot be categorized in other asset classes (e.g. Faculty Mortgages, GTAA funds, Opportunistic Managers, and Synthetic Exposure).

CAMBRIDGE ASSOCIATES

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MSCI

Standard & Poor's

Wilshire Indexes

Bloomberg Barclays

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management Committee

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of fixed income managers for the University of Houston System Endowment.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The board approved a 5% increase in the target allocation for fixed income in February 2020 as part of new policy targets for the endowment. Cambridge Associates will discuss with the Committee their recommendation to hire two additional fixed income managers, PIMCO and Loomis Sayles, to invest the additional fixed income allocation. PIMCO and Loomis Sayles currently invest a portion of the non-endowed funds for the System.

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: $16 million per manager

RECOMMENDATION/ ACTION REQUESTED: Administration recommends approval of this item
This requires committee approval only

COMPONENT: University of Houston System

Jim McShan
8/6/2020

SENIOR VICE CHANCELLOR Jim McShan **DATE**

Renu Khator
08/19/2020

CHANCELLOR Renu Khator **DATE**

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management

ITEM: Approval is requested to make a full redemption from a value focused equity manager and reallocate the proceeds to one or more existing managers within the University of Houston System Endowment Fund.

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

The Committee will receive a report from the System's investment consultant, Cambridge Associates, regarding their recommendation to make a full redemption from Gotham Hedged Value Strategies. Cambridge will also recommend reinvesting the Gotham proceeds primarily into the Russell 1000 index, as well as some smaller amounts into other fixed income managers. Cambridge plans to make a recommendation regarding fixed income managers at the November, 2020 meeting.

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: Gotham Hedged Value Strategies market value of $34.4 million as of 6/30/2020

RECOMMENDATION/ ACTION REQUESTED: Administration recommends approval of this item. This item requires committee approval only.

COMPONENT: University of Houston System

Jim McShan
SENIOR VICE CHANCELLOR Jim McShan — 8/6/2020 **DATE**

Renu Khator
CHANCELLOR Renu Khator — 08/19/2020 **DATE**