

Endowment Management Committee
Meeting
Thursday, February 24, 2022 9:00 AM

Hilton University of Houston Hotel, Conrad
Hilton Ballroom, Second Floor
4800 Calhoun Rd
Houston, TX 77204

Agenda

I. Endowment Management Committee

I.A. Call to Order

Presenter: Chair Steve Chazen

I.B. Approval of Committee Minutes

- August 26, 2021, Endowment Management Committee Meeting

I.C. Action: Approval

Presenter: Chair Steve Chazen

I.D. Report from NEPC regarding the University of Houston System endowment and non-endowed portfolios - University of Houston System

Action: Information

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.E. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a global equity manager and the liquidation of assets within the University of Houston System Endowment Fund to fund this manager - University of Houston System .

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.F. Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies - University of Houston System

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.G. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a private investment manager for the University of Houston System Endowment Fund - University of Houston System

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.H. Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a fixed income manager for the non-endowed portfolio and the liquidation of an existing fixed income manager within the University of Houston System Non-Endowment Investment Fund - University of Houston System.

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.I. Approval is requested to modify the UH System Investment Policy for Non-Endowed Funds- University of Houston System

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

I.J. Approval is requested for a modification to the Endowment Plus Quasi Endowment - University of Houston.

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance and Eloise Brice, Vice Chancellor for University Advancement

I.K. Approval is requested for the FY2022 University Advancement Endowment Assessment Rate - University of Houston.

Action: Approval

Presenter: Raymond Bartlett, Senior Vice Chancellor for Administration and Finance

II. **Executive Session**

Presenter: Chair Steve Chazen

II.A. 1. Consultation with System Attorney Regarding Legal Matters and/or Contemplated Litigation or Settlement Offers.

Texas Gov't Code Section 551.071

2. Deliberations regarding the Purchase, Exchange, Sale or Value of Real Property.

Texas Gov't Code Section 551.072

3. Deliberation Regarding a Prospective Gift

Texas Gov't Code Section 551.073

4. Personnel Matters Relating to Appointment, Employment, Evaluation, Assignment, Duties, Discipline, or Dismissal of Officers or Employees including but not limited to the Chancellor, President, Vice Chancellors, in the Division of Athletics and members of the Board of Regents.

Texas Gov't Code Section 551.074

III. **Report and Action from Executive Session**

Presenter: Chair Steve Chazen

IV. **Adjourn**

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

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

DATE PREVIOUSLY SUBMITTED: N/A

SUMMARY:

Representatives from NEPC 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: NEPC discussion materials report

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett

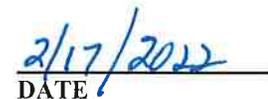


DATE



CHANCELLOR

Renu Khator



DATE



ENDOWMENT MANAGEMENT COMMITTEE

UNIVERSITY OF HOUSTON SYSTEM

FEBRUARY 24, 2022





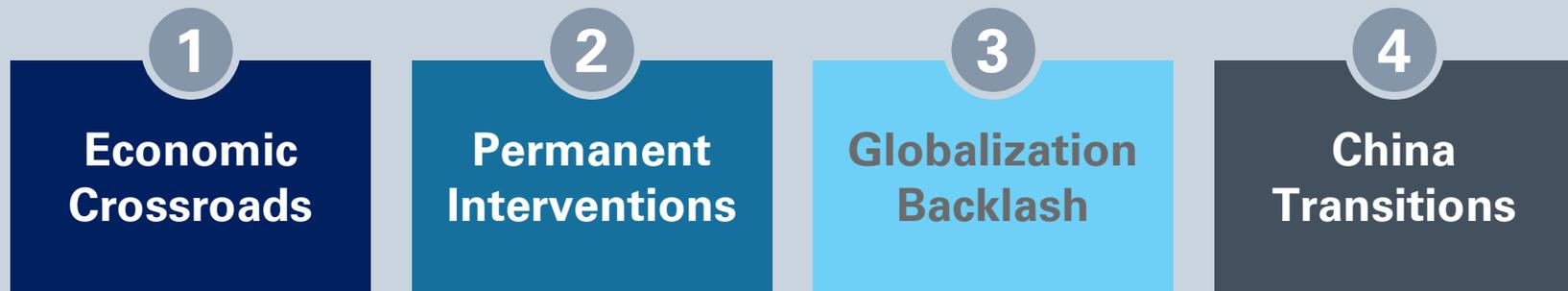
MARKET PERSPECTIVE & OUTLOOK



NEPC KEY MARKET THEMES

- **Key Market Themes influence global markets and may remain relevant for an extended period with significant implications for capital markets**
- **Themes can be disrupted and incite outsized market volatility**
- **The introduction of a theme looks to identify the unique implications for asset allocation and portfolio implementation**
- **The conclusion of a theme alters market dynamics and NEPC's outlook**

NEPC CURRENTLY HAS FOUR KEY MARKET THEMES:



ASSESSING THE KEY MARKET THEMES

AS OF 12/31/21

<p>Economic Crossroads</p> <p>Change in Status: -</p>	DORMANT	FADED	NEUTRAL	PREVALENT	DOMINANT
<p>Permanent Interventions</p> <p>Change in Status: <i>Prevalent to Faded</i></p>	DORMANT	FADED	NEUTRAL	PREVALENT	DOMINANT
<p>Globalization Backlash</p> <p>Change in Status: <i>Prevalent to Neutral</i></p>	DORMANT	FADED	NEUTRAL	PREVALENT	DOMINANT
<p>China Transitions</p> <p>Change in Status: -</p>	DORMANT	FADED	NEUTRAL	PREVALENT	DOMINANT

- Diminishing policy support and higher levels of inflation/growth are driving a transition from Fed policy as the dominant input for capital markets to economic fundamentals
- This transition will dramatically influence the pricing of risk premia across capital markets and the economic outcome may track a wide regime spectrum

- Permanent Interventions enhances investor sentiment but is cyclically fading as monetary policy shifts to a less accommodative stance
- The Federal Reserve has begun tapering asset purchases and recent commentary suggests rate liftoff may happen sooner than anticipated given the economic and inflation backdrop

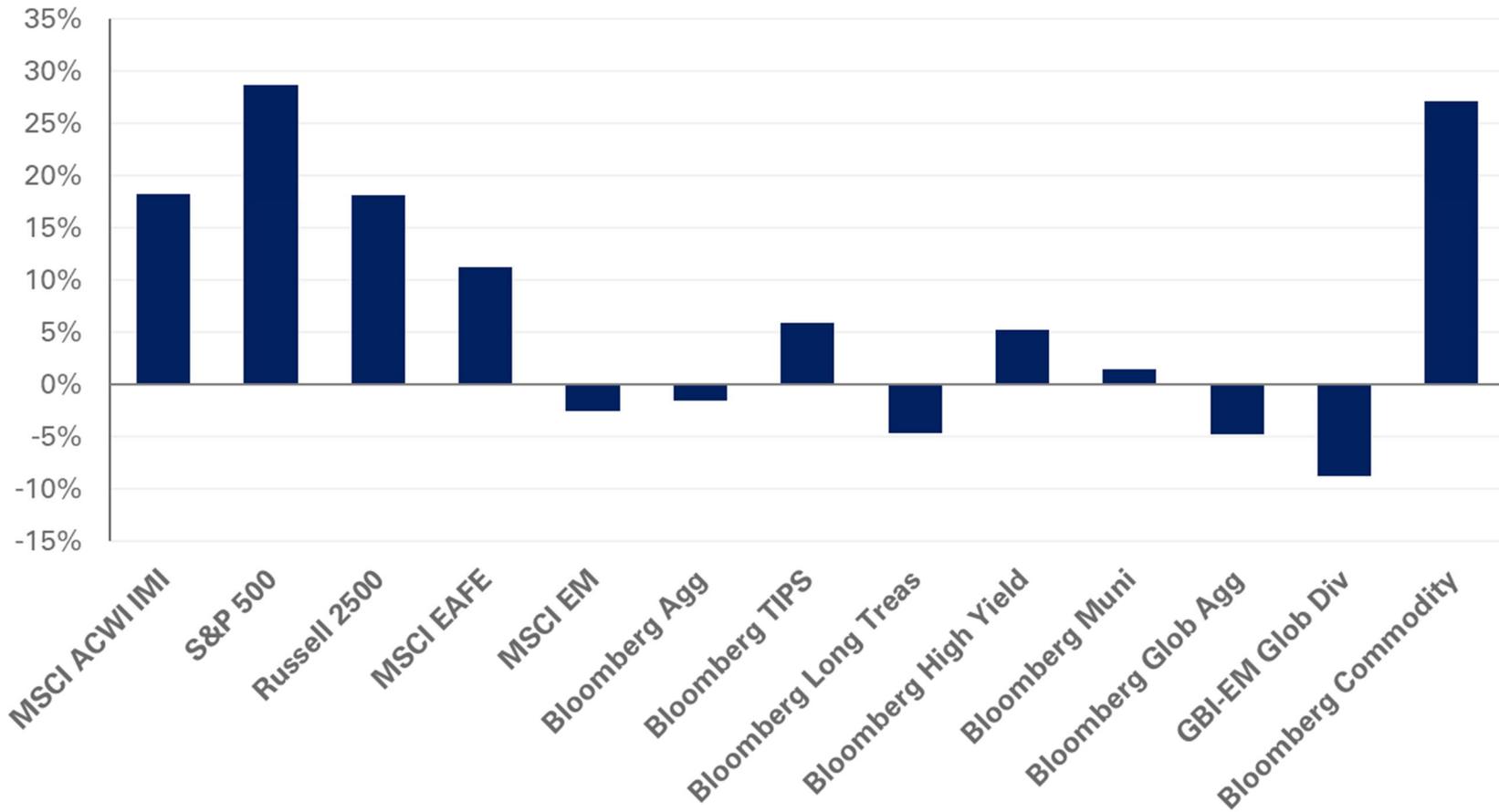
- The importance of this theme may increase as supply-chain disruptions and inflationary pressures strain the electorate and geopolitical relationships
- The world will likely be faced with an amplified wealth divide given economic and labor market conditions, which has historically driven more volatile political outcomes

- The “regulatory reset” highlights the potential for economic and capital market volatility on the country’s long transition path
- While in-line with the longer-term economic goals, these regulations have negatively impacted market sentiment; creating a tail-risk for market and economic contagion



MARKET REVIEW: YEAR-END 2021

ANNUAL TOTAL RETURNS



Source: MSCI, S&P, Russell, MSCI, Bloomberg, JPM, FactSet



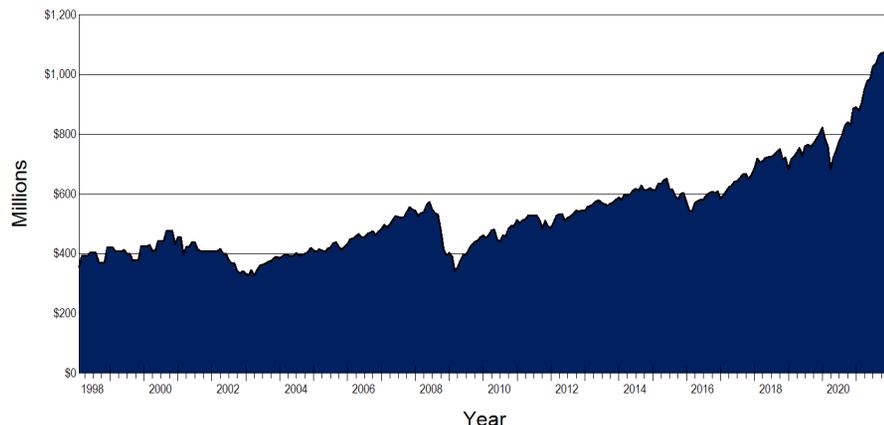
INVESTMENT PERFORMANCE : UHS ENDOWMENT FUND



University of Houston System Endowment Fund

INVESTMENT PERFORMANCE

Portfolio Market Value



Market Value (\$)

UHS Endowment Fund 1,102,842,893

1 Yr (%)

UHS Endowment Fund	24.4
<i>Dynamic Benchmark</i>	20.7
Public Equity	15.6
<i>MSCI ACWI</i>	18.5
Bonds and Cash	-0.2
<i>Dynamic Bonds and Cash Benchmark</i>	-0.8
Marketable Real Assets	32.3
<i>Marketable Real Assets Benchmark</i>	27.1
Hedge Funds	14.6
<i>HFRI Fund of Funds Composite Index</i>	6.1
Private Equity	63.3
<i>C A Global All PE (Qtr Lag)</i>	48.0
Private Real Assets	34.1
<i>Private Real Assets Benchmark</i>	21.3

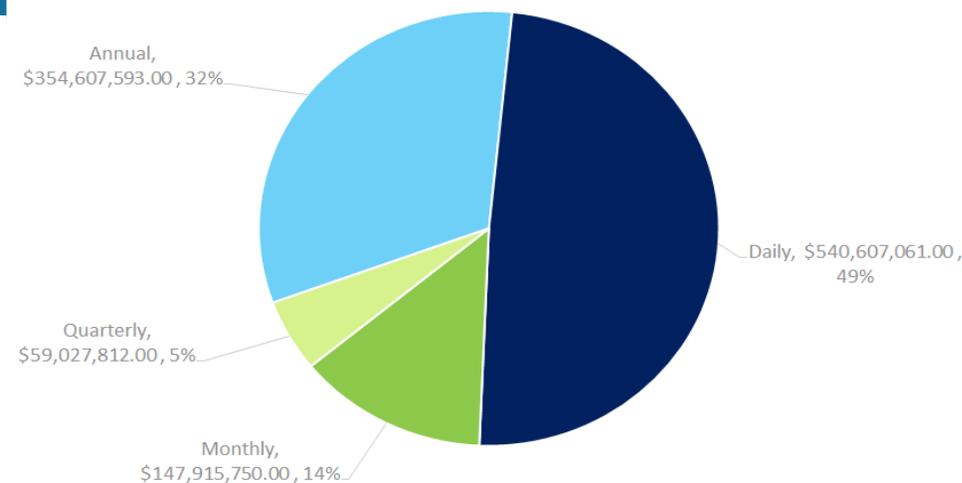
Allocation vs. Targets and Policy

	Current Allocation	Policy	Policy Range
Equities	48.1%	45.0%	35.0% - 55.0%
Bonds and Cash	11.3%	15.0%	7.0% - 17.0%
Private Equity	26.0%	25.0%	10.0% - 35.0%
Hedge Funds	5.4%	5.0%	0.0% - 10.0%
Real Assets	9.3%	10.0%	5.0% - 15.0%
Total	100.0%	100.0%	

Fiscal YTD (%) 2021 (%) 3 Yrs (%) 5 Yrs (%)

UHS Endowment Fund	6.3	24.4	18.5	13.2
<i>Policy Benchmark</i>	5.4	21.4	16.1	10.9
<i>InvMetrics All E&F > \$1B Net Median</i>	1.8	15.4	14.8	10.9
UH Endowment Fund Excl. Private Markets	0.0	13.3	15.2	10.5
<i>Policy Benchmark Excl. Private Markets</i>	2.1	14.7	14.9	10.3

Liquidity

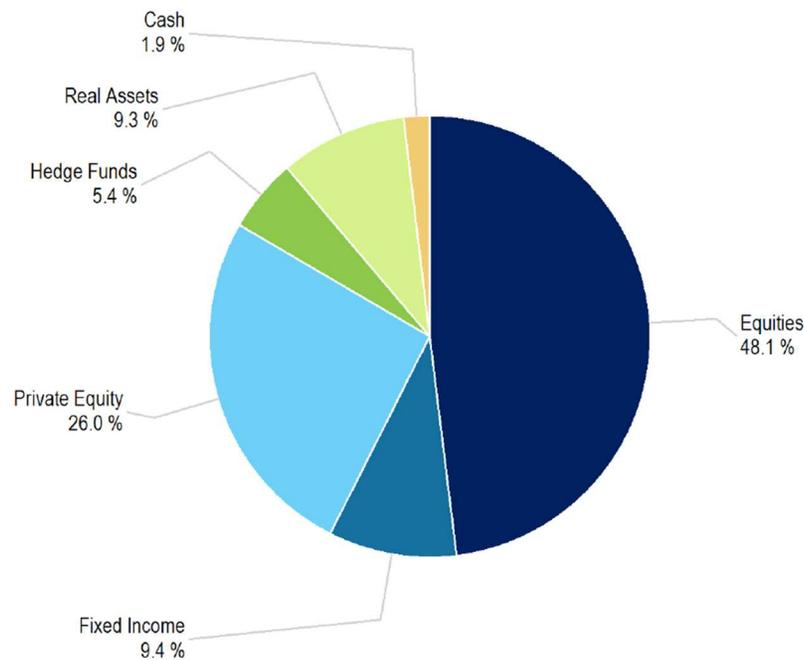


University of Houston System Endowment Fund

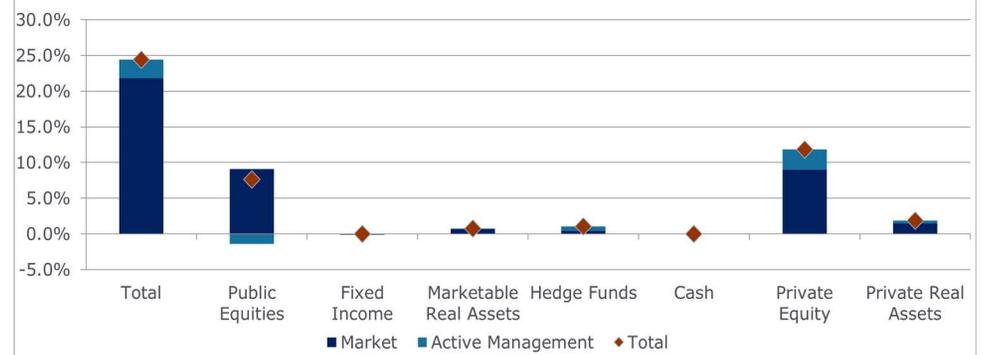
INVESTMENT PERFORMANCE

	Market Value (\$)	3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)
UHS Endowment Fund	1,102,842,893	5.4	24.4	18.5	13.2	9.5
<i>Dynamic Benchmark</i>		<u>4.6</u>	<u>20.7</u>	<u>15.7</u>	<u>10.5</u>	<u>8.2</u>
Over/Under		0.8	3.7	2.8	2.7	1.3
<i>InvMetrics All E&F > \$1B Net Median</i>		3.6	15.4	14.8	10.9	9.1

Current Allocation



YTD Attribution



- The UHS Endowment Fund posted a +5.4% return in Q4 2021, and +24.4% for the past year**
 - Performance significantly outpaced the “Dynamic Benchmark” and UHS goals
 - Private Equity and Private Real Assets were the primary drivers of outperformance
- The five-year return for UHS now stands at +13.2% annualized**
 - Returns for 1-, 3-, 5- and 10- year time periods have exceeded UHS’s target return (i.e. spending plus inflation)
 - Manager outperformance has been a significant driver
- Agenda items for today:**
 - Investment Performance Review
 - Endowment: Global Equity Manager Recommendation, PE Recommendation
 - Non-Endowed: Strategic Review and Manager Recommendation



UNIVERSITY PEER GROUP

- Peer group comprised of Colleges and Universities with assets of \$750M-2B as of 9/30/2021

Institution	Asset Allocation (%)										AACRs (%)			
	Global. Equity	U.S. Equity	Non-U.S. Developed Equity	Emerging Markets Equity	PE & VC	Hedge Funds	RA & ILB	Bonds	Cash	Other	1 Year	3 Years	5 Years	10 Years
1	—	23.1	9.2	5.2	22.2	24.2	2.2	6.3	2.7	4.8	21.2	11.2	9.4	8.2
2	8.5	28.6	8.9	5.5	21.1	14.6	3.0	7.5	1.4	0.9	28.2	14.1	12.8	10.3
3	—	19.3	10.8	5.0	26.2	17.0	4.2	10.1	6.2	1.0	33.1	15.5	13.6	11.8
4	9.8	21.7	10.3	7.6	14.3	18.7	2.8	11.1	0.8	2.9	24.0	11.7	10.3	—
5	—	18.4	11.4	3.2	30.7	18.6	6.9	7.6	1.7	1.6	32.8	14.3	13.4	11.1
6	15.7	7.8	2.3	6.0	34.5	19.6	4.0	—	6.3	3.8	35.1	16.2	14.7	11.4
7	—	38.3	6.3	6.2	11.8	12.1	10.5	7.4	5.0	2.5	25.1	12.1	11.9	10.7
8	38.3	—	—	—	23.8	19.1	9.2	1.3	3.1	5.2	27.3	11.7	11.2	8.9
9	4.5	26.8	18.8	—	22.2	9.0	8.1	7.3	3.2	0.1	41.2	15.2	12.8	9.7
10	—	13.9	11.3	10.3	17.8	5.4	25.3	13.7	-0.4	2.6	31.8	10.6	11.0	9.1
11	9.1	22.9	12.7	3.5	23.8	10.6	6.5	8.1	0.5	2.4	32.6	13.2	11.6	9.9
12	16.1	14.2	6.4	3.0	23.7	28.8	1.2	—	3.9	2.6	35.8	15.8	13.8	11.0
13	—	24.9	19.9	5.3	23.8	4.3	9.7	3.8	4.0	4.5	31.9	12.8	11.6	9.5
14	22.9	12.1	5.2	4.1	16.0	13.9	11.9	8.7	0.5	4.7	27.1	9.7	9.1	8.5
15	—	—	—	—	—	—	—	—	—	—	—	—	—	—
Key Peers Mean <i>n=14</i>	8.9	19.4	9.5	4.6	20.8	14.4	7.0	6.2	2.8	2.6	30.5	13.2	11.9	10.0
C&U Mean <i>n=126</i>	7.9	19.5	10.0	5.4	20.9	15.5	6.8	7.7	3.2	3.0	29.7	13.1	11.9	10.0
Institutional Mean <i>n=387</i>	9.9	20.4	10.6	5.1	16.2	16.3	5.8	9.6	3.9	2.3	26.5	12.0	11.1	9.5
UHS Endowment Fund	0	27.4	16.8	3.8	24.3	5.8	9.1	9.7	3.2	-	28.1	13.6	12.1	9.3

Primary drivers of outperformance vs. peers over the 3 and 5 Year periods:
Higher exposure to both Public Equity and Private Equity and strong contributions from your active managers.

Hedge Funds include Long/Short Hedge, Absolute Return, and Distressed strategies

Fixed Income includes Global Bonds, U.S. Bonds, Developed Markets ex. U.S. Bonds, Emerging Markets Bonds, and High Yield Bonds

Real Assets includes Private and Public Real Estate, Commodities, Inflation-Linked Bonds, Private Oil & Gas/Natural Resources, Timber, and Public Energy/Natural Resources

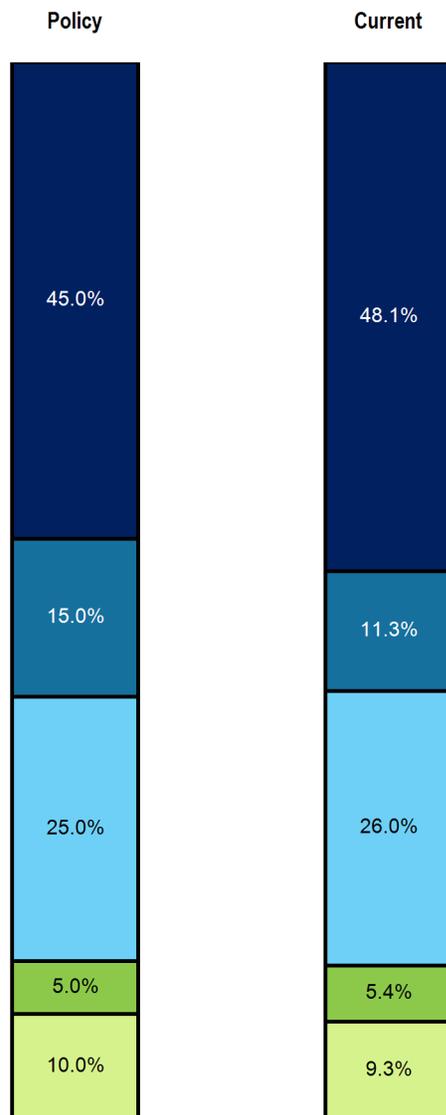
Other includes assets that cannot be categorized in the aforementioned asset classes

Performance is displayed net of fees; Source: CA Associates



University of Houston System Endowment Fund

ASSET ALLOCATION VS. POLICY TARGETS



Asset Allocation vs. Target						
	Current	Policy	Current	Difference*	Policy Range	Within Range
Equities	\$530,384,429	45.0%	48.1%	3.1%	35.0% - 55.0%	Yes
Bonds and Cash	\$124,898,599	15.0%	11.3%	-3.7%	7.0% - 17.0%	Yes
Private Equity	\$286,411,028	25.0%	26.0%	1.0%	10.0% - 35.0%	Yes
Hedge Funds	\$59,083,577	5.0%	5.4%	0.4%	0.0% - 10.0%	Yes
Real Assets	\$102,065,260	10.0%	9.3%	-0.7%	5.0% - 15.0%	Yes
Total	\$1,102,842,893	100.0%	100.0%			

*Difference between Policy and Current Allocation

*Interim Policy is shown.



University of Houston System Endowment Fund

PERFORMANCE DETAIL

	Market Value (\$)	% of Portfolio	Ending December 31, 2021					Inception (%)	Inception Date
			3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)		
UHS Endowment Fund	1,102,842,893	100.0	5.4	24.4	18.5	13.2	9.5	6.5	Jan-98
<i>Dynamic Benchmark</i>			4.6	20.7	15.7	10.5	8.2	6.1	Jan-98
<i>Policy Benchmark</i>			5.1	21.4	16.1	10.9	8.7	6.4	Jan-98
Public Equity	530,384,429	48.1	3.0	15.6	20.0	14.2	11.8	6.9	Jan-98
<i>MSCI ACWI</i>			6.7	18.5	20.4	14.4	11.9	7.1	Jan-98
U.S Equity	308,754,109	28.0	4.8	20.4	25.5	18.0	15.1	8.3	Jan-98
<i>Russell 3000</i>			9.3	25.7	25.8	18.0	16.3	9.0	Jan-98
Northern Trust Russell 3000 Index Fund - Lending	146,234,951	13.3	9.3	--	--	--	--	26.2	Feb-21
<i>Russell 3000</i>			9.3	25.7	25.8	18.0	16.3	26.2	Feb-21
Columbia Focused Large Cap Growth	77,326,355	7.0	0.9	10.3	31.3	23.8	17.8	16.4	May-10
<i>Russell 1000 Growth</i>			11.6	27.6	34.1	25.3	19.8	18.0	May-10
Vulcan Value Partners	83,199,334	7.5	1.2	22.0	25.5	16.5	--	12.8	Aug-15
<i>Russell 1000 Value</i>			7.8	25.2	17.6	11.2	13.0	10.7	Aug-15
Cougar Investment Fund	1,993,470	0.2	8.7	21.9	20.7	13.5	12.2	8.7	Jun-05
<i>S&P 500</i>			11.0	28.7	26.1	18.5	16.6	11.0	Jun-05
Non-U.S. Developed Equity	180,866,607	16.4	0.5	10.9	15.4	10.7	9.7	9.1	Apr-03
<i>MSCI EAFE</i>			2.7	11.3	13.5	9.5	8.0	8.3	Apr-03
William Blair International Growth	73,714,569	6.7	1.4	9.4	23.7	15.2	11.0	9.1	Oct-03
<i>MSCI ACWI ex USA</i>			1.8	7.8	13.2	9.6	7.3	7.3	Oct-03
Silchester International Value	74,511,994	6.8	0.0	11.6	9.0	7.1	8.5	8.3	Aug-09
<i>MSCI EAFE</i>			2.7	11.3	13.5	9.5	8.0	6.9	Aug-09
Global Alpha Int'l Small Cap	32,640,043	3.0	-0.6	12.7	15.6	--	--	8.0	May-18
<i>MSCI EAFE Small Cap</i>			0.1	10.1	15.6	11.0	10.8	6.3	May-18



University of Houston System Endowment Fund

PERFORMANCE DETAIL

	Market Value (\$)	% of Portfolio	Ending December 31, 2021					Inception (%)	Inception Date
			3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)		
Emerging Markets Equity	40,763,713	3.7	0.8	4.6	6.5	6.2	4.6	5.5	Feb-10
<i>MSCI Emerging Markets</i>			-1.3	-2.5	10.9	9.9	5.5	4.8	Feb-10
Oldfield Emerging Markets	15,487,387	1.4	3.1	12.7	5.3	7.0	--	5.4	May-14
<i>MSCI Emerging Markets</i>			-1.3	-2.5	10.9	9.9	5.5	5.3	May-14
Somerset Global Emerging Markets	12,751,948	1.2	-2.9	-10.4	8.0	7.1	--	3.6	Jun-14
<i>MSCI Emerging Markets</i>			-1.3	-2.5	10.9	9.9	5.5	4.9	Jun-14
Edgbaston Asian Equity	12,524,378	1.1	2.0	13.9	--	--	--	2.0	Jul-19
<i>MSCI AC Asia Pacific ex Japan</i>			-0.8	-2.9	12.3	10.8	7.7	9.8	Jul-19
Fixed Income	104,025,178	9.4	-0.3	-0.4	4.4	3.4	1.9	-0.4	Jan-21
Core Fixed Income	86,556,877	7.8	-0.2	-0.5	4.2	3.1	1.9	3.9	Jan-98
<i>Bloomberg US Aggregate TR</i>			0.0	-1.5	4.8	3.6	2.9	4.7	Jan-98
Smith Graham Intermediate Aggregate	68,714,966	6.2	-0.4	-0.9	3.9	--	--	2.9	Feb-17
<i>Bloomberg US Int TR</i>			-0.5	-1.3	3.6	2.8	2.4	2.8	Feb-17
Loomis Sayles Investment Grade Fixed Income Fund	17,841,911	1.6	0.5	0.8	--	--	--	4.1	Oct-20
<i>Bloomberg US Govt/Credit TR</i>			0.2	-1.8	5.5	4.0	3.1	-0.8	Oct-20
Diversified Fixed Income	17,468,301	1.6	-0.9	0.3	0.9	0.5	-0.5	1.9	Nov-20
<i>Bloomberg Global Aggregate TR</i>			-0.7	-4.7	3.6	3.4	1.8	-1.4	Nov-20
PIMCO Dynamic Bond Fund	17,468,301	1.6	-0.9	0.3	--	--	--	2.2	Oct-20
<i>3-Month Libor Total Return USD</i>			0.0	0.2	1.0	1.4	0.9	0.2	Oct-20
Cash and Equivalents	20,873,421	1.9	0.0	0.0	0.9	1.0	0.6	2.0	Jan-98
<i>ICE BofA 91 Days T-Bills TR</i>			0.0	0.0	1.0	1.1	0.6	1.9	Jan-98
Cash	20,873,421	1.9	0.0	0.0	1.0	1.2	0.7	2.0	Jan-98



University of Houston System Endowment Fund

PERFORMANCE DETAIL

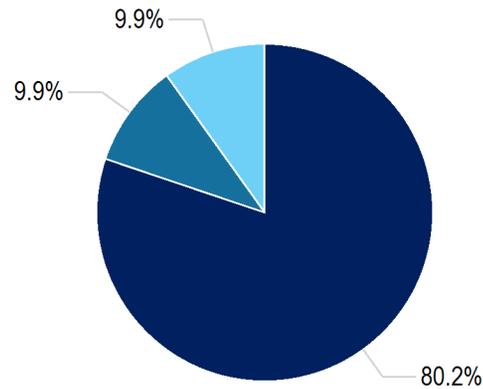
	Market Value (\$)	% of Portfolio	Ending December 31, 2021					Inception (%)	Inception Date
			3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)		
Marketable Real Assets	33,239,788	3.0	11.6	32.3	15.5	5.9	1.7	6.2	Oct-03
<i>Marketable Real Assets Benchmark</i>			5.6	27.1	11.8	6.2	--	--	Oct-03
Vanguard Real Estate Index Fund	16,115,213	1.5	15.0	40.5	20.0	--	--	15.9	Oct-18
<i>Real Estate Index</i>			14.9	40.6	20.1	--	--	16.0	Oct-18
T. Rowe Price New Era Fund	17,124,575	1.6	8.6	25.5	12.7	--	--	4.7	Oct-18
<i>MSCI World Select Natural Resources</i>			5.7	31.4	10.4	4.3	3.0	2.1	Oct-18
Hedge Funds	59,083,577	5.4	4.7	14.6	10.8	7.2	6.0	5.5	Aug-03
<i>HFRI Fund of Funds Composite Index</i>			0.4	6.1	8.4	5.7	4.6	3.9	Aug-03
Long/Short Equity	22,130,435	2.0	10.3	33.7	20.1	12.9	8.9	6.9	Jan-05
SRS Partners	16,194,746	1.5	13.0	34.7	16.7	13.4	--	10.1	Jun-14
Lakewood Capital Offshore	5,935,689	0.5	3.7	31.8	14.2	--	--	9.5	Oct-18
Diversifiers	36,331,628	3.3	1.6	6.4	6.3	4.0	4.3	4.8	Aug-03
Davidson Kempner	17,812,819	1.6	0.2	7.1	7.3	6.1	6.1	6.8	Aug-03
HBK Offshore	18,518,809	1.7	3.1	9.3	6.8	5.6	5.1	5.3	Mar-11
Manager Holdbacks	621,514	0.1	0.3	0.4	-2.1	-0.1	--	-7.2	Jul-12
Private Markets	355,236,500	32.2	11.1	56.6	26.7	21.6	15.7	56.6	Jan-21
Private Equity	286,411,028	26.0	12.0	63.3	33.6	27.3	20.1	14.1	Jan-98
CJA Global All PE (Qtr Lag)			4.8	48.0	22.4	19.9	15.9	--	Jan-98
Private Real Assets	68,825,472	6.2	7.5	34.1	8.0	7.6	7.4	6.5	Nov-03
<i>Private Real Assets Benchmark</i>			4.6	21.3	5.8	7.9	8.1	9.8	Nov-03



University of Houston System Endowment Fund

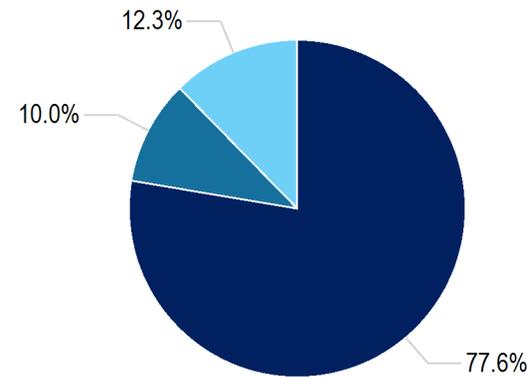
EXECUTIVE SUMMARY

Valuation by Asset Class



Private Equity Real Assets Real Estate

Fund Exposure by Asset Class



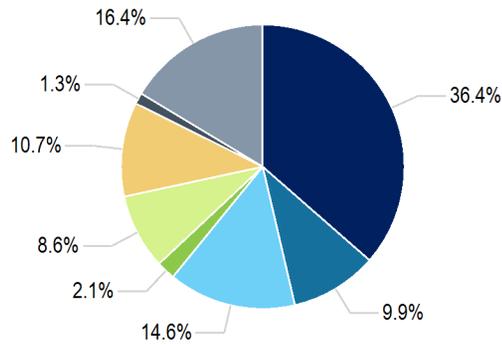
Private Equity Real Assets Real Estate

Asset Class	Investments \$				Trailing Period Performance (IRR)							Multiples	
	Commitment	Cumulative Contributions	Unfunded Commitment	Valuation	(QTR)	(YTD)	(1 YR)	(3 YRS)	(5 YRS)	(10 YRS)	SI IRR	DPI	TVPI
Total Private Equity	\$323,131,535	\$188,696,876	\$134,434,659	\$290,981,270	12.05%	40.62%	64.20%	36.04%	30.86%	24.23%	22.48%	0.57	2.11
Total Real Assets	\$74,500,000	\$55,682,082	\$18,817,968	\$36,040,873	4.68%	28.66%	45.76%	4.46%	7.70%	6.24%	8.56%	0.60	1.24
Total Real Estate	\$77,735,295	\$46,063,681	\$31,671,614	\$35,967,745	9.82%	18.97%	23.25%	14.54%	14.07%	13.32%	5.76%	0.58	1.34
Total	\$475,366,830	\$290,442,639	\$184,924,240	\$362,989,888	11.04%	36.94%	57.21%	28.72%	25.24%	19.88%	15.77%	0.57	1.82



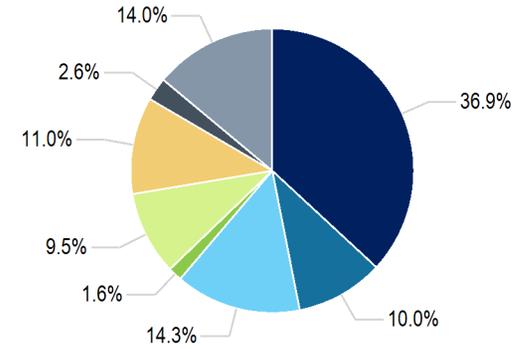
University of Houston System Endowment Fund ANALYSIS BY STRATEGY

Private Markets Valuation by Strategy



■ Buyout ■ Fund of Funds ■ Opportunistic ■ Value Add
■ Energy ■ Growth Equity ■ Secondaries ■ Venture Capital

Private Markets Fund Exposure by Strategy



■ Buyout ■ Fund of Funds ■ Opportunistic ■ Value Add
■ Energy ■ Growth Equity ■ Secondaries ■ Venture Capital

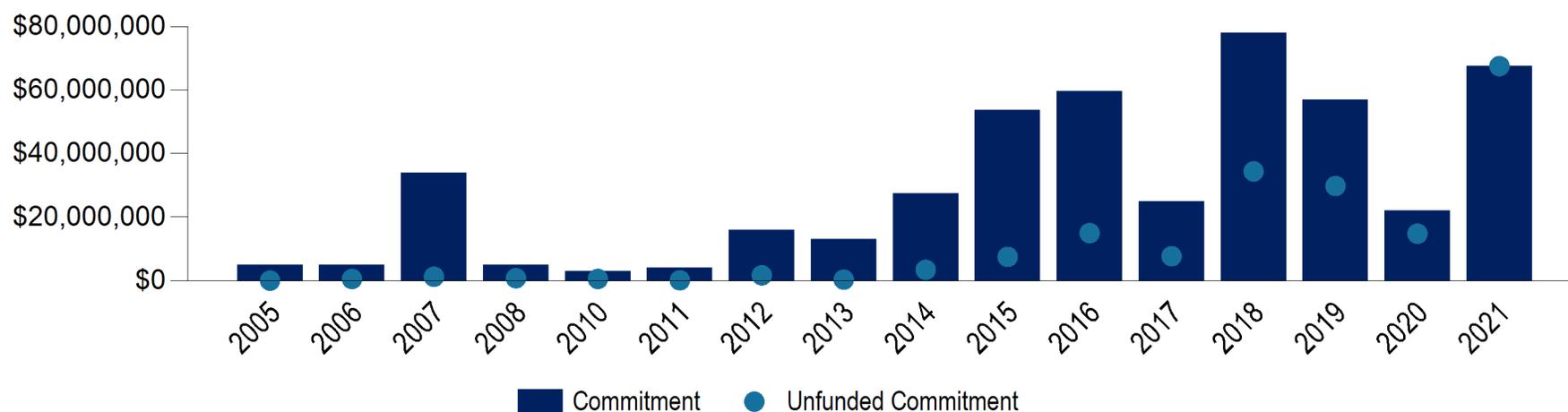
Investment Strategy	Investments			Commitments			Contributions & Distributions			Valuations				Performance		
	Commitment	Unfunded Commitment	Call Ratio	Cumulative Contributions	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	Fund Exposure	DPI	TVPI	IRR			
Total Buyout	\$159,500,000	\$69,850,652	0.56	\$89,649,348	\$4,897	\$46,394,588	\$132,216,680	\$178,611,268	\$88,957,023	\$202,067,333	0.52	1.99	23.85%			
Total Energy	\$74,500,000	\$18,817,968	0.75	\$55,682,082	-\$23,570	\$33,121,521	\$36,040,873	\$69,162,394	\$13,503,883	\$54,858,840	0.60	1.24	8.56%			
Total Fund of Funds	\$61,000,000	\$25,787,407	0.58	\$35,212,593	\$0	\$39,957,417	\$52,831,470	\$92,788,887	\$57,576,294	\$78,618,877	1.13	2.64	14.74%			
Total Growth Equity	\$5,000,000	\$945,267	0.81	\$4,054,733	\$0	\$0	\$7,769,148	\$7,769,148	\$3,714,415	\$8,714,415	0.00	1.92	61.52%			
Total Opportunistic	\$46,500,000	\$21,152,376	0.55	\$25,347,624	\$847,870	\$7,021,832	\$31,109,373	\$38,131,205	\$11,935,711	\$52,261,749	0.27	1.46	17.77%			
Total Secondaries	\$54,000,000	\$21,584,140	0.60	\$32,415,860	\$254	\$17,220,830	\$38,890,078	\$56,110,908	\$23,694,794	\$60,474,218	0.53	1.73	27.24%			
Total Value Add	\$23,235,295	\$9,819,331	0.58	\$13,415,964	\$109,256	\$11,374,206	\$4,617,152	\$15,991,358	\$2,466,138	\$14,436,483	0.84	1.18	2.13%			
Total Venture Capital	\$51,631,535	\$16,967,099	0.67	\$34,664,436	-\$6,091	\$12,302,486	\$59,515,114	\$71,817,600	\$37,159,255	\$76,482,213	0.35	2.07	25.46%			
Total	\$475,366,830	\$184,924,240	0.61	\$290,442,639	\$932,616	\$167,392,881	\$362,989,888	\$530,382,769	\$239,007,513	\$547,914,128	0.57	1.82	15.77%			



University of Houston System Endowment Fund

ANALYSIS BY VINTAGE YEAR

Commitments By Vintage Year



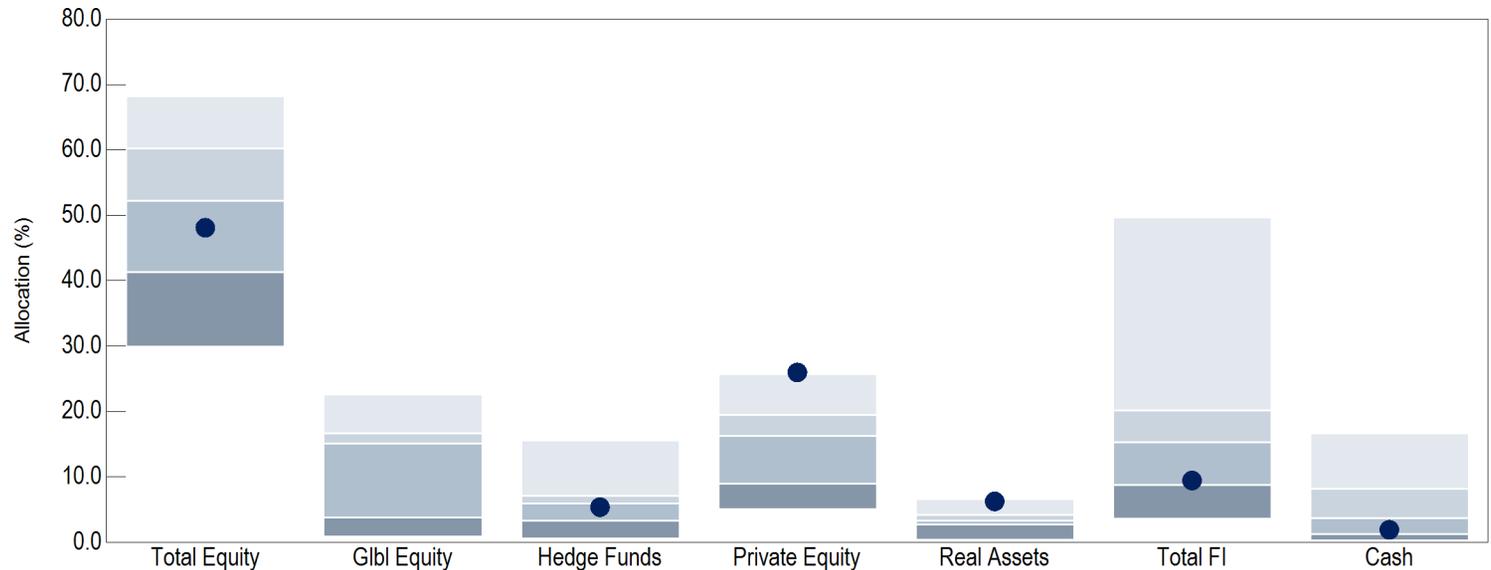
Investments	Commitments			Contributions & Distributions			Valuations			Performance		
Vintage Year	Commitment	Unfunded Commitment	Call Ratio	Cumulative Contributions	Additional Fees	Cumulative Distributions	Valuation	Total Value	Net Benefit	DPI	TVPI	IRR
Total 2005	\$5,000,000	\$0	1.00	\$5,000,000	\$0	\$3,569,109	\$1,225,578	\$4,794,687	-\$205,313	0.71	0.96	-0.34%
Total 2006	\$5,000,000	\$505,441	0.90	\$4,494,559	\$0	\$4,527,977	\$49,980	\$4,577,957	\$83,398	1.01	1.02	0.24%
Total 2007	\$33,985,295	\$1,207,592	0.96	\$32,777,703	\$0	\$47,082,461	\$6,504,950	\$53,587,411	\$20,809,709	1.44	1.63	10.44%
Total 2008	\$5,000,000	\$755,000	0.85	\$4,245,000	\$0	\$6,506,345	\$1,815,015	\$8,321,360	\$4,076,360	1.53	1.96	10.27%
Total 2010	\$3,000,000	\$510,000	0.83	\$2,490,000	\$0	\$6,998,286	\$7,737,673	\$14,735,959	\$12,245,959	2.81	5.92	24.02%
Total 2011	\$4,000,000	\$86,098	0.98	\$3,913,902	\$0	\$4,173,459	\$3,205,002	\$7,378,461	\$3,464,559	1.07	1.89	12.46%
Total 2012	\$16,000,000	\$1,656,331	0.90	\$14,343,669	\$3,431	\$18,191,993	\$12,559,845	\$30,751,839	\$16,404,739	1.27	2.14	20.54%
Total 2013	\$13,000,000	\$299,739	0.98	\$12,700,261	\$0	\$14,292,780	\$19,948,866	\$34,241,647	\$21,541,386	1.13	2.70	21.20%
Total 2014	\$27,500,000	\$3,379,321	0.88	\$24,120,679	\$3,964	\$14,232,916	\$30,571,946	\$44,804,862	\$20,680,219	0.59	1.86	19.21%
Total 2015	\$53,750,000	\$7,472,438	0.86	\$46,277,611	\$490,481	\$29,441,858	\$62,073,342	\$91,515,199	\$44,747,108	0.63	1.96	21.20%
Total 2016	\$59,631,535	\$14,947,886	0.75	\$44,683,649	\$143,894	\$11,651,680	\$69,793,355	\$81,445,035	\$36,617,492	0.26	1.82	26.06%
Total 2017	\$25,000,000	\$7,658,305	0.69	\$17,341,695	-\$6,091	\$604,376	\$33,579,911	\$34,184,287	\$16,848,682	0.03	1.97	41.21%
Total 2018	\$78,000,000	\$34,369,447	0.56	\$43,630,553	\$194,968	\$2,792,426	\$65,214,848	\$68,007,274	\$24,181,754	0.06	1.55	40.92%
Total 2019	\$57,000,000	\$29,793,510	0.48	\$27,206,490	\$101,969	\$3,327,215	\$40,800,183	\$44,127,397	\$16,818,938	0.12	1.62	74.74%
Total 2020	\$22,000,000	\$14,783,131	0.33	\$7,216,869	\$0	\$0	\$7,909,393	\$7,909,393	\$692,524	0.00	1.10	35.39%
Total 2021	\$67,500,000	\$67,500,000		\$0	\$0	\$0	\$0	\$0	\$0			
Total	\$475,366,830	\$184,924,240	0.61	\$290,442,639	\$932,616	\$167,392,881	\$362,989,888	\$530,382,769	\$239,007,513	0.57	1.82	15.77%



University of Houston System Endowment Fund

ASSET ALLOCATION VS. E&F INSTITUTIONS > \$1B

Total Plan Allocation vs. InvMetrics All E&F > \$1B Net
As of December 31, 2021



Allocation (Rank)

5th Percentile	68.2	22.6	15.6	25.7	6.6	49.6	16.7	
25th Percentile	60.3	16.7	7.2	19.6	4.2	20.3	8.2	
Median	52.3	15.2	6.1	16.3	3.4	15.4	3.8	
75th Percentile	41.4	3.8	3.4	9.1	2.8	8.8	1.3	
95th Percentile	30.0	0.9	0.7	5.2	0.4	3.7	0.4	
# of Portfolios	18	8	13	15	8	18	18	
● UHS Endowment Fund	48.1 (62)	--	--	5.4 (58)	26.0 (5)	6.2 (8)	9.4 (71)	1.9 (71)

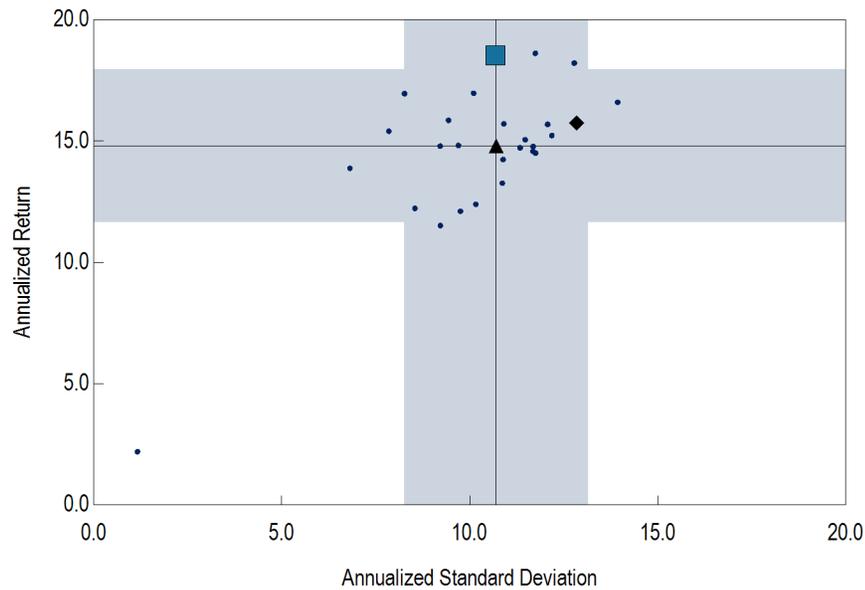
*Marketable Real Assets are excluded from analytic.



University of Houston System Endowment Fund

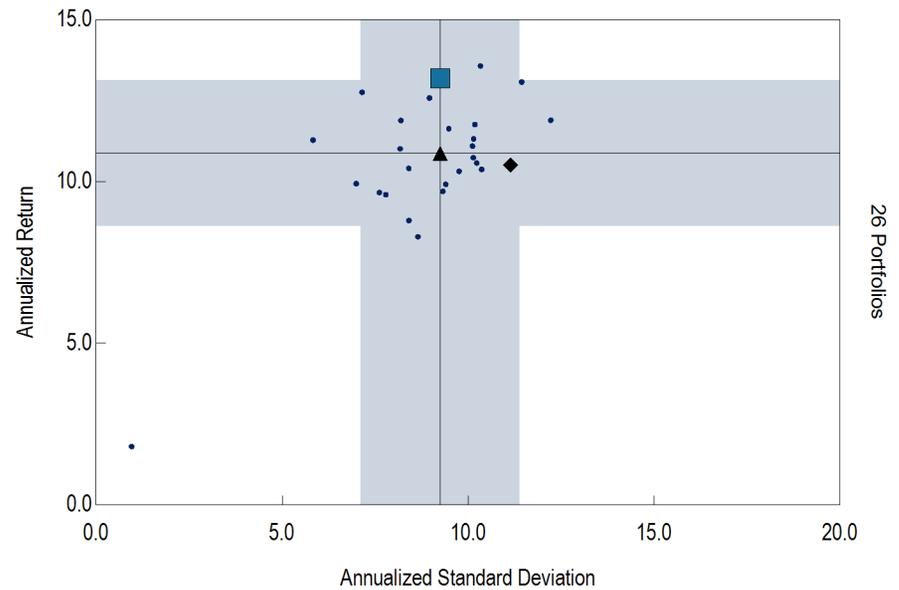
RISK/RETURN VS. E&F INSTITUTIONS > \$1B

3 Years Ended December 31, 2021



- UHS Endowment Fund
- ◆ Dynamic Benchmark
- ▲ Universe Median
- 68% Confidence Interval
- InvMetrics All E&F > \$1B Net

5 Years Ended December 31, 2021



- UHS Endowment Fund
- ◆ Dynamic Benchmark
- ▲ Universe Median
- 68% Confidence Interval
- InvMetrics All E&F > \$1B Net

3 Years Ended December 31, 2021								
	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
UHS Endowment Fund	18.5%	4	10.7%	50	1.7	14	1.7	32
Dynamic Benchmark	15.7%	28	12.8%	97	1.2	78	1.2	97

5 Years Ended December 31, 2021								
	Anlzd Ret	Rank	Anlzd Std Dev	Rank	Sharpe Ratio	Rank	Sortino Ratio	Rank
UHS Endowment Fund	13.2%	4	9.3%	51	1.3	14	1.4	32
Dynamic Benchmark	10.5%	58	11.1%	95	0.8	95	0.9	99



UHS ENDOWMENT CASH FLOWS BY CATEGORY

Period	Beginning Market Value (in millions)	Net Cash Flows (in millions)	Net Investment Change (in millions)	Management Fees (in millions)	Ending Market Value (in millions)
2012	\$486,853	\$10,962	\$61,391	-\$3,798	\$555,408
2013	\$555,408	-\$42,572	\$76,384	-\$3,885	\$585,336
2014	\$585,336	\$9,127	\$20,615	-\$4,495	\$610,582
2015	\$610,582	-\$24,614	-\$12,203	-\$3,678	\$570,086
2016	\$570,086	-\$16,937	\$32,186	-\$4,666	\$580,670
2017	\$580,670	\$7,757	\$95,836	-\$5,011	\$679,252
2018	\$679,252	\$26,657	-\$17,775	-\$4,834	\$683,300
2019	\$683,300	\$17,003	\$120,690	-\$6,372	\$814,623
2020	\$814,624	-\$37,486	\$121,586	-\$6,854	\$891,870
2021	\$891,870	-\$6,840	\$225,818	-\$6,917	\$1,102,842

Net cash flows include transfers in and out of the plan, including but not limited to gifts, annual payouts, and non-management fees such as custodial fees, consulting fees, and performance fees.

Net investment change includes all unrealized and realized gains and losses, dividends, and interest income.

Management fees reflect all investment management fees. Private fund investment management fees reflect estimates. Management fees do not include performance-based fees for hedge funds and private investments.





GLOBAL EQUITY

Fund Implementation



MANAGER RECOMMENDATION: ARROWSTREET

Fund	1 Month (January, 2022)	1 Year*	3 Years*	5 Years*	Since Inception* (4/1/2006)
Arrowstreet Global Equity – ACWI	-4.7%	22.6%	23.2%	17.1%	10.2%
MSCI ACWI	-4.9%	18.5%	20.4%	14.4%	7.5%
<i>Excess Return</i>	0.2%	4.1%	2.8%	2.7%	2.7%

- **Arrowstreet Global Equity invests in public equity in US and non-US markets.**
 - Robust quantitative approach designed to capitalize on opportunities across the globe with minimal tracking error or style bias
 - Significant and consistent outperformance vs. the global equity index (MSCI ACWI) across time periods
 - Exhibits minimal style bias (not notably Growth or Value), and as such makes a compelling “Core” holding for UHS

- **Recommendation**
 - \$50M investment in Arrowstreet Global Equity
 - Fund Arrowstreet with equivalent reduction from current US and Non-US Equity managers (i.e. no change in UHS total exposure to US equity or Non-US equity)
 - Rebalance recommendation follows Arrowstreet profile on next pages



* Return statistics 1 Year or greater are as of 12/31/21

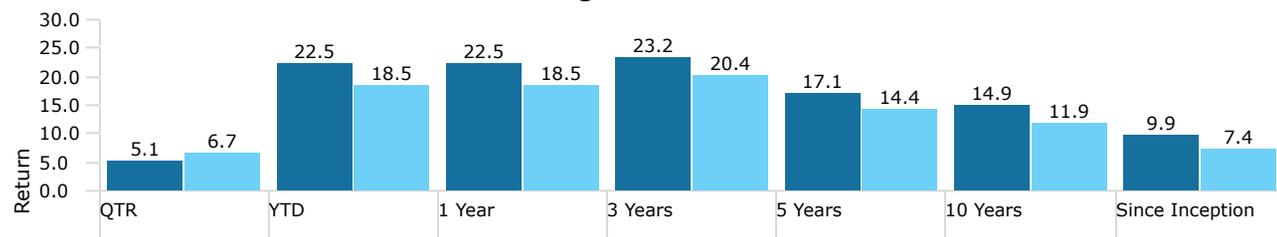
Arrowstreet Global Equity (ACWI)

Investment Strategy

Arrowstreet's investment process is quantitative in nature but utilizes elements of qualitative intuition across signal development, risk management and other aspects of the strategy. Arrowstreet believes that securities should be evaluated across both direct (company specific) and indirect (country, sector and other) effects. Arrowstreet continually reinvests in research and infrastructure in order to maintain sustainable sources of competitive advantage and alpha. The research team is constantly evaluating, monitoring and enhancing existing investment signals as well as studying new signals to include in the process.

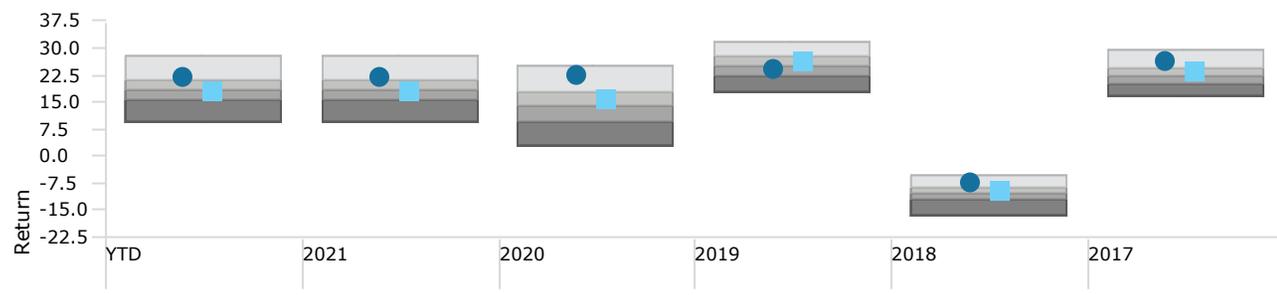
● Arrowstreet Global Equity (ACWI) ■ MSCI ACWI NR USD ▲ US SA World Large-Stock Blend

Trailing Period Returns



Performance Relative to Peer Group

Peer Group (5-95%): Separate Accounts - U.S. - World Large-Stock Blend



Quarterly Returns

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
2021	10.10	6.59	-0.71	5.09	22.45
2020	-22.07	22.61	7.46	19.57	22.79
2019	11.65	2.84	-0.45	8.84	24.41
2018	1.04	-0.63	6.39	-12.89	-6.95
2017	7.79	4.90	5.39	6.20	26.55
2016	0.33	1.97	4.05	2.29	8.87
2015	4.43	-0.02	-9.32	4.84	-0.73

Excess Returns

	1st Qtr	2nd Qtr	3rd Qtr	4th Qtr	Year
2021	5.53	-0.81	0.34	-1.58	3.92
2020	-0.70	3.39	-0.67	4.89	6.53
2019	-0.52	-0.77	-0.42	-0.11	-2.19
2018	2.00	-1.17	2.11	-0.14	2.46
2017	0.88	0.63	0.20	0.47	2.58
2016	0.09	0.98	-1.26	1.10	1.01
2015	2.12	-0.37	0.13	-0.19	1.63

Summary Statistics

Time Period: 1/1/2017 to 12/31/2021

	Strategy	Benchmark
Up Capture Ratio	106.36	100.00
Down Capture Ratio	95.24	100.00
Std Dev	15.43	14.84
Information Ratio	0.80	—
Alpha	2.16	0.00
Beta	1.02	1.00
R2	96.43	100.00
Tracking Error	2.95	0.00
Sharpe Ratio	1.03	0.91

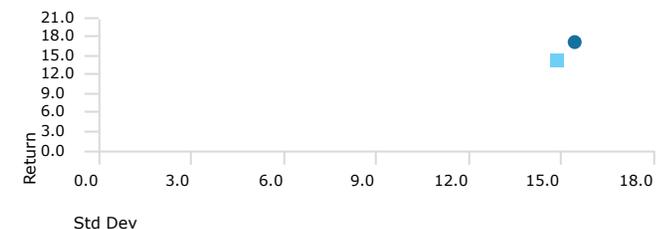
Drawdown Statistics

Time Period: Since Common Inception (5/1/2006) to 12/31/2021

	Strategy	Benchmark
Max Drawdown	-53.11	-54.92
Max Drawdown # of Months	16	16
Max Drawdown Peak Date	11/1/2007	11/1/2007
Max Drawdown Valley Date	2/28/2009	2/28/2009
Recovery # of Months	26	55

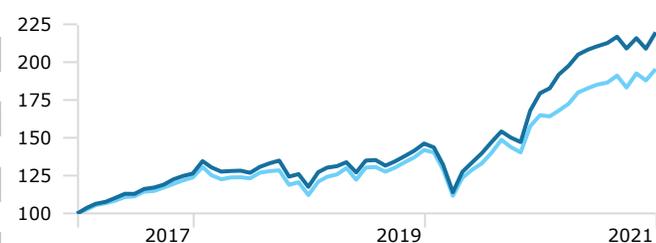
Risk-Reward

Time Period: 1/1/2017 to 12/31/2021



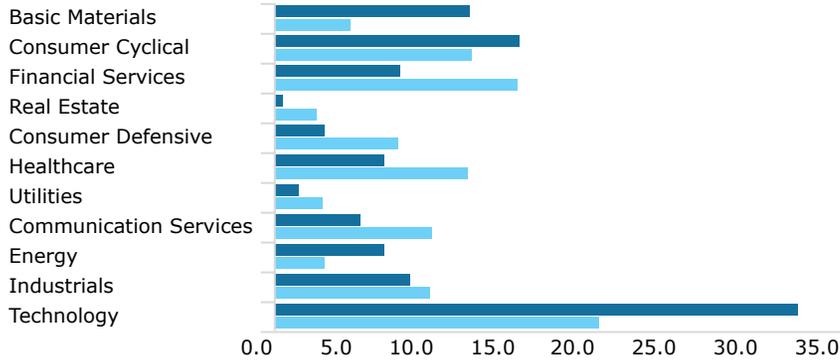
	Strategy	Benchmark
M-Squared (Risk Adjusted-Return)	17.20%	14.62%

Investment Growth

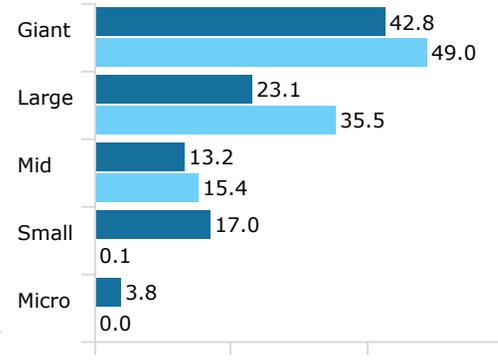


Arrowstreet Global Equity (ACWI)

Sector Exposure



Market Cap



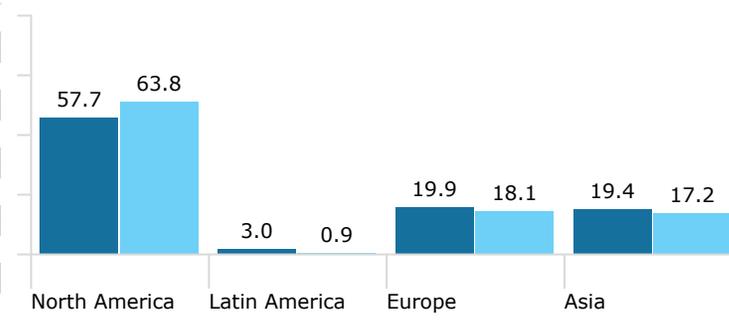
Characteristics

	Strategy	Benchmark
P/E	21.05	20.00
P/B	1.78	2.94
Dividend Yield	2.50%	1.91%
Average Market Cap	40,331	117,033
% Asset in Top 10 Holdings	21.4%	17.1%
# of Holdings	725	2,970
Turnover Ratio %	2%	—
Strategy Assets	46,009	—
Firm Total Assets	157,410	—
Inception Date	4/3/2006	1/1/2001

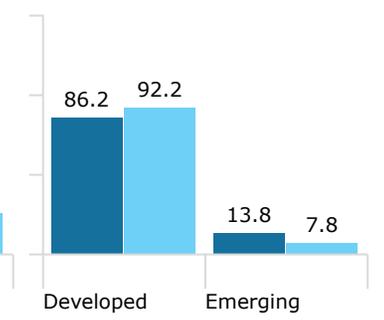
Top Holdings

Company	Weight
Amazon.com Inc	3.6%
Microsoft Corp	3.5%
NVIDIA Corp	2.1%
Advanced Micro Devices Inc	2.1%
Samsung Electronics Co Ltd	1.9%
Johnson & Johnson	1.7%
Sberbank of Russia PJSC	1.7%
Tokyo Electron Ltd	1.7%
Gazprom PJSC	1.6%
Micron Technology Inc	1.5%

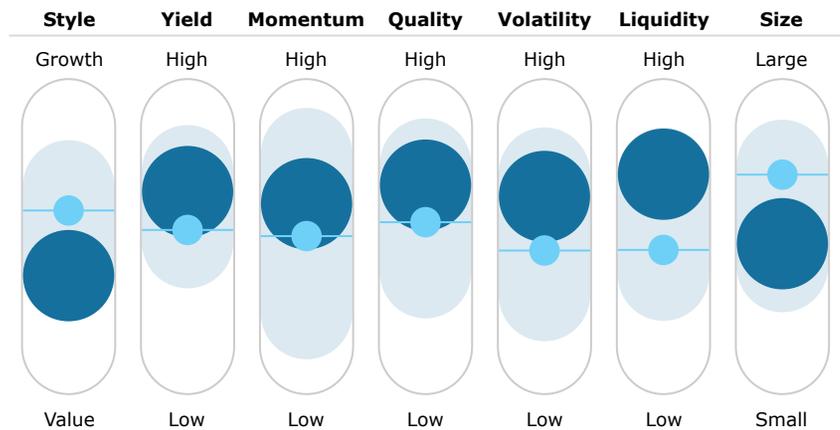
Region Exposure



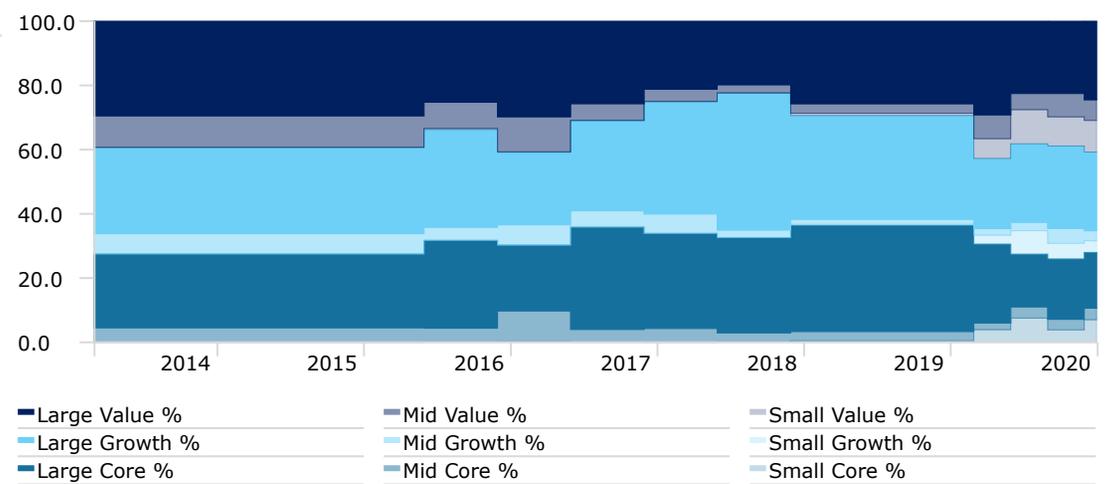
Market Classification



Factor Profile



Equity Style



● Arrowstreet Global Equity (ACWI) ● Historical Range ◆ MSCI ACWI NR USD



University of Houston System - Endowment Fund

	Market Value as of 12/31/2021	Estimated January 2022 Performance	Estimated Market Value as of 1/31/2021	Weight in Fund	Recommendation	Estimated Market Value as of 1/31/2021	Ending Weight	Target Weight	Over/ Under%
UHS Endowment Fund	\$1,067,836,507	-3.6%	\$1,042,912,725	100.0%	\$0	\$1,042,912,725	100.0%	100.0%	0.0%
Public Equity	\$530,384,429	-3.4%	\$496,414,536	47.6%	\$0	\$496,414,536	47.6%	49.0%	-1.4%
U.S. Equity	\$308,754,110		\$285,581,975	27.4%	(\$25,000,000)	\$260,581,975	25.0%	23.0%	2.0%
Northern Trust Russell 3000 Index Fund - Lending	\$146,234,951	-5.9%	\$137,607,089	13.2%	(\$5,000,000)	\$132,607,089	12.7%		
Columbia Focused Large Cap Growth	\$77,326,355	-8.2%	\$70,985,594	6.8%	(\$10,000,000)	\$60,985,594	5.8%		
Vulcan Value Partners	\$83,199,334	-9.7%	\$75,099,483	7.2%	(\$10,000,000)	\$65,099,483	6.2%		
Cougar Investment Fund	\$1,993,470	-5.2%	\$1,889,810	0.2%		\$1,889,810	0.2%		
International Equity	\$180,866,606		\$171,150,205	16.4%	(\$25,000,000)	\$146,150,205	14.0%	16.0%	-2.0%
William Blair International Growth	\$73,714,569	-11.0%	\$65,605,966	6.3%	(\$10,000,000)	\$55,605,966	5.3%		
Silchester International Value	\$74,511,994	1.0%	\$75,286,919	7.2%	(\$15,000,000)	\$60,286,919	5.8%		
Global Alpha Int'l Small Cap	\$32,640,043	-7.3%	\$30,257,320	2.9%		\$30,257,320	2.9%		
Emerging Markets Equity	\$40,763,713		\$39,682,355	3.8%	\$0	\$39,682,355	3.8%	5.0%	-1.2%
Oldfield Emerging Markets	\$15,487,387	-1.9%	\$15,193,127	1.5%		\$15,193,127	1.5%		
Somerset Global Emerging Markets	\$12,751,948	-1.9%	\$12,509,661	1.2%		\$12,509,661	1.2%		
Edgbaston Asian Equity	\$12,524,378	-4.4%	\$11,979,568	1.1%		\$11,979,568	1.1%		
Global Equity	\$0		\$0	0.0%	\$50,000,000	\$50,000,000	4.8%	5.0%	-0.2%
Arrowstreet Global Equity - ACWI	\$0		\$0	0.0%	\$50,000,000	\$50,000,000	4.8%		
Total Fixed Income	\$104,025,178	-0.2%	\$102,062,506	9.8%	\$0	\$102,062,506	9.8%	12.0%	-2.2%
Core Fixed Income	\$86,556,877		\$84,699,015	8.1%	\$0	\$84,699,015	8.1%	8.0%	0.1%
Smith Graham Intermediate Aggregate	\$68,714,966	-2.2%	\$67,203,237	6.4%		\$67,203,237	6.4%		
Loomis Sayles Investment Grade Fixed Income Fund	\$17,841,911	-1.9%	\$17,495,778	1.7%		\$17,495,778	1.7%		
Diversified Fixed Income	\$17,468,301		\$17,363,491	1.7%	\$0	\$17,363,491	1.7%	4.0%	-2.3%
PIMCO Dynamic Bond Fund	\$17,468,301	-0.6%	\$17,363,491	1.7%		\$17,363,491	1.7%		
Cash and Equivalents	\$20,873,421		\$32,895,625	3.2%	\$0	\$32,895,625	3.2%	0.0%	3.2%
Cash	\$20,873,421		\$32,895,625	3.2%		\$32,895,625	3.2%		
Marketable Real Assets	\$33,239,788	-0.1%	\$32,226,367	3.1%	\$0	\$32,226,367	3.1%	3.0%	0.1%
Vanguard Real Estate Index Fund	\$16,115,213	-7.5%	\$14,906,572	1.4%		\$14,906,572	1.4%		
T. Rowe Price New Era Fund	\$17,124,575	1.1%	\$17,319,795	1.7%		\$17,319,795	1.7%		
Hedge Funds	\$59,083,577		\$59,083,577	5.7%	\$0	\$59,083,577	5.7%	5.0%	0.7%
Long/Short Equity	\$22,130,435		\$22,130,435	2.1%	\$0	\$22,130,435	2.1%		
SRS Partners	\$16,194,746		\$16,194,746	1.6%		\$16,194,746	1.6%		
Lakewood Capital Offshore	\$5,935,689		\$5,935,689	0.6%		\$5,935,689	0.6%		
Diversifiers	\$36,331,628		\$36,331,628	3.5%	\$0	\$36,331,628	3.5%		
Davidson Kempner	\$17,812,819		\$17,812,819	1.7%		\$17,812,819	1.7%		
HBK Offshore	\$18,518,809		\$18,518,809	1.8%		\$18,518,809	1.8%		
Manager Holdbacks	\$621,514		\$621,514	0.1%		\$621,514	0.1%		
Private Markets	\$320,230,114		\$320,230,114	30.7%		\$320,230,114	30.7%	31.0%	-0.3%
Private Equity/Debt	\$255,947,108		\$255,947,108	24.5%		\$255,947,108	24.5%	25.0%	-0.5%
Private Real Assets	\$64,283,006		\$64,283,006	6.2%		\$64,283,006	6.2%	6.0%	0.2%

*Estimated market values are based on custody statement as well as estimated manager and/or benchmark performance



POLICY UPDATE: UHS ENDOWMENT FUND

Introduction of Global Equity

POLICY RECOMMENDATIONS: ENDOWMENT

Asset Group	Current UHS Portfolio	Current UHS Investment Policy	NEPC Proposed
US Equity	27.4%	23%	21%
International Equity	16.4%	17%	15%
Emerging Markets	3.8%	5%	5%
Global Equity	0.0%	0%	5%
Public Equities	47.6%	45%	46%
Private Equity	24.5%	25%	22%
Private Debt	0.0%	0%	3%
Private Real Assets/Real Estate	6.2%	6%	6%
Private Markets	30.7%	31%	31%
Core/Core Plus Fixed Income	8.1%	12%	12%
Diversified Fixed Income	1.7%	0%	0%
Fixed Income	9.8%	12%	12%
Hedge Funds	5.7%	5%	5%
Liquid Real Assets	3.1%	4%	3%
Multi-Asset	8.8%	9%	8%
Cash	3.1%	3%	3%

Measure	Current UHS Portfolio	Current UHS Investment Policy	NEPC Proposed
Expected Return 10 Yr (Geometric)	6.10%	6.10%	6.10%
Standard Deviation (Asset)	16.10%	16.00%	15.60%
Sharpe Ratio (10 Years)	0.29	0.29	0.30

- **Modest adjustments to Asset Allocation targets**
 - Public Equities (+1%)
 - Introduce Global Equity at 5%
 - Fund this investment through equal reduction from current US and Non-US equity managers
 - Private Markets
 - Separate Private Debt investments from Private Equity; fundamentally different risk/return profiles
 - Liquid Real Assets (-1%)
 - Align target with current level of investment



Expected returns do not reflect assumption of manager outperformance (alpha)

ENDOWMENT INVESTMENT POLICY

- **Three recommended changes to the Investment Policy Statement:**
 - Asset Allocation
 - Relabel “Global Equities” category “Public Equities”
 - Add Global Equity as an asset class within Public Equities (5% target)
 - Corresponding reduction in targets for US Equity (-2%), International Equity (-2%), and Liquid Real Assets (-1%)
 - Consolidate Private Equity & Venture Capital under “Private Equity”
 - Separate “Private Debt” from Private Equity; different characteristics
 - Refresh of Market Indexes
 - Several Indexes have new names/owners (Bloomberg instead of Barclays)
 - Miscellaneous clean-up adjustments to reflect best practices

- **Redline version of the Policy Statement begins on following page**



UNIVERSITY OF HOUSTON SYSTEM ENDOWMENT FUND
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
Approved by the Board of Regents

~~February 27, 2020~~February 24,

2022

PREFACE

The University of Houston System Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the endowment, thereby sustaining its ability to generate support for both current and future generations of students. As part of a commitment to long-range financial equilibrium, the Regents have adopted the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income so as to keep pace with inflation and evolving university needs, while generally performing above the average of the markets in which the assets are invested. Pursuant to Board Bylaw, the Endowment Management Committee has been established as a standing committee to assist the Board in fulfilling its fiduciary responsibilities.

To achieve its investment objectives the University of Houston System retains independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The Endowment Management Committee shall:

- a) Review and recommend to the Board changes to investment policies;
- b) Review and recommend to the Board the university advancement assessment rate;
- c) Review and recommend to the Board asset allocation long-term targets and ranges;
- d) Review and recommend to the Board external investment consultants;
- e) Monitor, evaluate, hire or terminate external investment managers;
- f) Establish investment manager guidelines;
- g) Monitor the actual allocation of assets through additions and withdrawals of funds among managers and investment media to conform to the long-term targets insofar as practical; and
- h) Oversee the results of the independent managers and report periodically to the Board and the university community.

FORWARD

This policy is intended to be ongoing until the next review is completed. Comprehensive reviews are to be completed every five years.

In addition to complying with the duty of loyalty imposed by Texas state law, each person responsible for making or retaining each and all investments and in acquiring, investing, reinvesting, exchanging, retaining, selling, supervising and managing System funds shall do so in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. It is the general practice of the University of Houston System to pool endowment resources. For investment purposes however, the assets are

managed in separate endowment fund accounts. The following statement sets out explicit policies for the pooled endowment but would apply to non-pooled holdings as well. The Regents seek superior investment returns through professional management without assuming imprudent risks. In managing and investing the System's endowment assets, the following factors, if relevant, must be considered:

- a) general economic/capital market conditions;
- b) the possible effect of inflation or deflation;
- c) the expected tax consequences, if any, of investment decisions or strategies;
- d) the role that each investment or course of action plays within the overall investment portfolio;
- e) the expected return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances, and such circumstances may change over time;
- f) the expected total return from income and the appreciation of investments;
- g) other resources of the institution;
- h) the needs of the institution and the fund to make distributions and to preserve capital; and
- i) an asset's special relationship or special value, if any, to the charitable purposes of the institution.

Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the System endowment's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably aligned with the endowment fund's stated goals and objectives.

FINANCIAL OBJECTIVES

The primary long-term financial objective for the University endowment is to preserve and enhance the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of portfolio management. Costs to manage and administer the endowment assets should be appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of investment consultant(s) and investment manager(s) to whom investment management functions are delegated. Performance of the overall endowment against this objective is measured over rolling periods of five years.

INVESTMENT OBJECTIVES

In order to meet the financial objective stated above, the primary long-term investment objective of the endowment is to earn a total rate of return that exceeds the spending rate plus university advancement assessment fee, if any, plus the costs of managing the investment fund, and expressed in real (or inflation-adjusted) terms. Given the current System spending rate of 5.3% (which includes 4% payout and 1.3% university advancement assessment), the objective of this fund will be to earn a real (inflation adjusted) return of 5.3% when measured over rolling periods of at least five years. It is also

understood that due to market conditions there may be five-year periods where this objective is exceeded and purchasing power is enhanced, as well as five-year periods where the objective is not met and purchasing power is diminished. The medium-term objective for the endowment is to outperform each of the capital markets in which assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer. In addition, the performance of the overall endowment is expected to be consistently in at least the second quartile of the university's peer group, as measured by the NACUBO-Commonfund Study of Endowments over rolling five-year time periods, as well as comparison annually to a peer group provided by an outside advisor. Thus, the Endowment Management Committee is responsible for allocating assets to segments of the market and to managers who will provide superior performance when compared with both the median performance of other educational endowments and with capital markets generally.

Finally, the total return of the University's investment portfolio should be evaluated against the return of a composite index consisting of appropriate benchmarks weighted according to the Endowment Management Committee's asset allocation targets.

INVESTMENT MANAGERS

In accordance with Board policy, hiring of investment consultants requires approval of the Board. Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

Managers of marketable securities are expected to produce a cumulative annualized total return net of fees and commissions that exceeds an appropriate benchmark index over moving three to five-year periods, and should be above a median for active investment managers using similar investment philosophies over the same time periods. At their discretion, managers may hold cash reserves and fixed income securities up to 25% of portfolio market value with the understanding that their benchmark will not be adjusted to reflect cash holdings. Managers who wish to exceed these limits should secure prior approval from the Treasurer. The Treasurer, in turn, shall seek approval from the Senior Vice Chancellor for Administration and Finance or designee.

ENDOWMENT PAYOUT POLICY

The Regents of the University of Houston System have established an endowment payout policy which attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains, net of portfolio management fees. The historical rate of payout has been 4 to 5 percent. Going forward, the endowment will maintain a payout rate of approximately 4% to 5%, with any change to this range to be approved by the Board. The payout rate will be based as a percentage of the fiscal year end market value average over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

UNIVERSITY 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 Board shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year end market value averaged over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

APPROPRIATION FOR EXPENDITURE

The endowment payout and the University Advancement Assessment fee constitute the appropriation for annual expenditure. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

- a) the duration and preservation of the endowment fund;
- b) the purposes of the institution and the endowment fund;
- c) general economic conditions;
- d) the possible effect of inflation or deflation;
- e) the expected total return from income and the appreciation of investments;
- f) other resources of the institution; and
- g) the investment policy of the institution.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the endowment as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the endowment, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately

preceding the year in which the appropriation for expenditure was made, so long as the fair market value of the endowment fund is at least \$450 million, otherwise the limit on the appropriation for expenditure in any year is 7%.

EXPENDITURE FROM UNDERWATER ENDOWMENTS

The Board, in managing and investing endowment assets, shall consider the charitable purposes of the institution and the purposes of the endowment fund. Subject to the intent of a donor expressed in an endowment gift instrument, the appropriation for expenditure from an endowment that is underwater in any year shall decrease incrementally and is eventually suspended when the market value of the endowment drops to a designated percentage of the endowment’s historical dollar value. Historical dollar value (HDV) is the aggregate value of contributions made to an endowment over time without regard to increases or decreases because of investment results. The declining spending rate from endowments that are underwater, and not otherwise expressly prohibited by a donor, is as follows:

Fund Value as a Percent of HDV	Spending rate
90 – 99.9%	75% of normal spending rate
80 – 89.9%	50% of normal spending rate
<80.0%	Suspend distributions

ASSET SELECTION AND ALLOCATION

It is understood that return enhancement assets (or equities), including both public and private equities, are to be the dominant asset class in the Endowment due to the superior long-term return offered by such assets. As such, equity assets may be thought of as the drivers of long-term Endowment return.

Although the long-term return from equity assets is superior, they have three primary drawbacks that must be addressed by investing in diversifying growth and risk reduction assets. The first is that periods of prolonged economic contraction (deflation) can be catastrophic. Although such periods are rare, the results of such periods are severe enough to warrant holding a portion of the Endowment in assets ~~(primarily intermediate to long-term high quality, non-callable fixed income securities), which that~~ are likely to retain value or to appreciate in value during such periods. ~~In this context, high quality shall mean a portfolio with an average credit quality of AA or better, although active managers may choose to hold select investment grade securities with lower ratings.~~ The goal of such holdings would be to provide sufficient liquidity to the Endowment and a measure of protection from market drawdowns to meet payout needs over a three to five year period without having to sell a significant portion of the equities at “fire-sale” prices.

~~Adherence to this policy will allow the Endowment to keep returned enhancement holdings intact and reap the rewards of a return to a more normal economic environment.~~

The second drawback to an overreliance on return enhancement assets is the effects of an unexpected rise in the rate of inflation. Such rises have traditionally been problematic for most types of equity assets, and given the System's stated goal of preserving purchasing power by achieving an attractive inflation adjusted return, some portion of the Endowment ~~should~~ may be invested in assets that will appreciate in value during periods of unexpected inflation.

Lastly, equity assets are subject to greater degrees of risk. Risk takes many forms and is usually thought of in terms of volatility of investment returns. Volatile investment returns translate into a level of support for the System's programs that (even with the smoothing effect of the rolling three-year average market value payout rule) is variable over time. In order to control this variability to a tolerable level, some allocation ~~is warranted~~ to diversified growth assets that produce attractive returns, but in a more absolute (or less variable) pattern, may be warranted. It is understood that such absolute return assets will ~~invariably often~~ return less than equity assets, ~~given rational markets~~ but should provide some degree of volatility mitigation over the course of a market cycle.

After providing for the three broad categories noted above, the remainder of the Endowment should be invested in equity assets, broadly defined and broadly diversified. Broad diversification is required not only to further smooth the pattern of returns, but to protect the endowment from the risks associated with undue concentration in any one type of equity asset. Although other forms of diversification may be considered, it is understood that the Endowment's equity assets will be diversified by style (growth versus value), geography (domestic versus foreign), and market capitalization (large-cap versus small).

Current policy targets and ranges for the Endowment can be found in Appendix A.

ALTERNATIVE INVESTMENT RISKS

For the purposes of this section, "alternative investments" refers to investments in ~~long/short equity, absolute return, Pprivate Eequity, Private Debt, and, Pprivate Rreal Assetsestate, and venture capital,~~ as well as other investment ~~types~~ types employing leverage, short sales, or illiquid ~~investment vehicles~~. The investments are made in the Endowment in order to improve diversification, reduce overall volatility, and enhance return. However, the Endowment Management Committee recognizes that these investments also present additional risks beyond those posed by investments in traditional marketable securities such as stocks and bonds. Among these risks are:

1. *Liquidity Risk*: most alternative investments impose restrictions on redemptions or require multi-year locks.
 - a. This risk is mitigated by imposing restrictions on the amount of the Endowment that may be allocated to alternative investments as detailed

above. In addition, the Endowment Management Committee will review at least annually the level of portfolio liquidity across all asset classes in order to ensure that there is sufficient liquidity to meet all obligations.

2. *Non-regulation risk*: Historically, alternative managers have been exempt from registration with the SEC, which has allowed them to employ strategies (such as short sales and use of leverage) forbidden by most traditional investment managers, as well as to avoid disclosing specific details of their investment practices or portfolio holdings.
 - a. With the passage of the Dodd-Frank Act of 2010, almost all alternative investment managers will be required to register with the SEC under the Investment Advisers Act of 1940. This Act will require registered managers to file documents with the SEC and for public record describing the nature of the business, fees charged, types of clients, and details on compliance policies. It will also provide to investors a greater level of detail into portfolio strategy and investment.
 - b. Venture capital managers will, however, remain exempt from the Investment Advisers Act and will therefore remain unregistered with the SEC.
 - i. This risk will be mitigated by performing detailed due diligence on these managers and monitoring them regularly as described below, as well as by diversifying manager risk through multiple direct and fund-of-fund investments.
3. *Transparency Risk*: alternative managers are not required to disclose portfolio holding details to the same extent that traditional marketable managers are, and are often reluctant to do so in order to preserve their perceived advantage over other investors.
 - a. This risk will be mitigated somewhat by the Dodd-Frank Act and the increased transparency provided by the requirement to file Form ADV with the SEC. Beyond that, however, the Endowment Management Committee, staff, and any outside advisors shall emphasize those managers who will provide at least the following level of detail into their investment portfolios:
 - i. Number of short and long positions
 - ii. The use of leverage
 - iii. Net market exposure
4. *Investment Strategy Risk*: alternatives often employ sophisticated and potentially riskier strategies, and may use leverage.
 - a. This risk will be mitigated by intensive due diligence and monitoring of potential alternative managers described below. An emphasis will be 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.
5. *Foreign Currency Risk*: changes in exchange rates could adversely affect fair value of the Endowment Fund.
 - a. The Endowment Management Committee recognizes that exposure to foreign currency acts as a hedge against a declining or collapsing dollar. In this way, such investments help to reduce risk in the portfolio. However,

the Committee will review the level of exposure to foreign currencies periodically in order to ensure that there are no unintended risks in the portfolio.

The following principles shall guide the selection of alternative investment managers:

- Diversify across managers to mitigate systematic and organizational risk, but avoid over-diversification.
- Diversify by strategy and geography to decrease correlations within the program.
- Emphasize qualitative evaluation of managers, as a manager's quantitative characteristics may change over time and in different market conditions.
- Discourage the use of significant leverage, and emphasize managers with a demonstrated skill in generating returns on assets as opposed to returns on equity.
- Avoid strategies that are trading oriented, highly complex, or quantitatively driven.

In addition, the investment manager due diligence process shall include the following functions, to be performed by some combination of outside consultants/advisors and internal staff:

- Background checks
 - o Reference checks
 - o News searches
 - o Industry consultation
- Review of vendor relationships
 - o Prime brokers
 - o Auditors
 - o Fund administrators
 - o Legal counsel
- Operational review
 - o On site visits
 - o Procedural
 - o Organizational

Monitoring of the overall program-level and manager-level exposures and investment results shall be administered in accordance with the following schedule by some combination of outside consultants/advisors and internal staff:

Monthly (For Long/Short Equity and Absolute Return Managers)

- Reports of performance and asset allocation.
- Proactive contact with investment managers whose performance falls outside of the expected range.

Quarterly or Semi-Annually

- Calls with investment managers.
- For long/short equity and absolute return managers, detailed performance reports and analysis providing information such as top long positions, net and gross exposures, exposure by strategy and geography, and organizational changes.

Annually

- On-site Diligence meetings with managers and attendance at annual meetings.

The Endowment Management Committee reviews and recommends to the Board the above asset allocation long-term targets and ranges, and the actual allocation of assets will be adjusted through additions and withdrawals of funds among managers and investment media to conform to these targets insofar as practical.

REBALANCING

The Committee recognizes the importance of periodically rebalancing the Endowment's asset allocation, namely to ensure that variation in returns among assets do not create outsized deviations from target allocations that cause Endowment performance to diverge from expected policy performance. To the extent possible, and in order to control transaction costs, the Endowment will utilize naturally occurring cash movement opportunities to rebalance the Endowment portfolio. Such naturally occurring opportunities include:

- The sourcing of cash for spending needs (withdrawals)
- The infusion of cash (contributions) into the existing portfolio
- Manager changes (partial or complete subscriptions or redemptions)
- Other cash transactions (i.e., dividends, interest income, return on capital, etc.)

In recognition that market action may force portfolio allocations outside of their allowable ranges in between Endowment Management Committee meetings, authority is delegated to the Treasurer to rebalance the portfolio in order to bring it back into compliance with the Investment Policy. More generally, the Treasurer, in conjunction with the investment consultant, will closely monitor asset allocation, and will periodically rebalance the portfolio, within allowable ranges, in light of major market movements or material changes in relative asset class valuations, in an effort to control risk and enhance long-term return. Further, with the assistance of the investment consultant, the Treasurer may rebalance up to 2.0% of the Endowment Fund intra-meeting to raise cash for meeting capital calls as well as to invest any cash inflows into the Endowment based on portfolio targets. Any rebalancing must occur across previously approved managers already held within the portfolio.

Any rebalancing actions taken by the Treasurer and investment consultant shall be communicated to the Chair of the Endowment Management Committee and to the Committee by the Senior Vice Chancellor for Administration and Finance or designee in a timely manner, but in any case no later than the next Committee meeting.

The objective of this rebalancing policy is to improve the compound return of the portfolio and to ensure that it is invested in accordance with long-term asset allocation targets. It is not the intention of this policy to force the University to take any action that may endanger the safety or impair the long-term return of the portfolio simply in order to remain in compliance with allowable ranges.

A clear illustration of such a scenario might be a market correction that reduces the value of the portfolio's marketable assets to an extent that forces the private investment allocation (the valuations of which lag those of marketable securities) beyond the allowable limits prescribed above. In order to stay in compliance in such a scenario, the University may be forced to sell interests in its private investment portfolio on the secondary market at a loss, impairing the overall Endowment's ability to recover from a correction of that magnitude.

Therefore, in the event of market action that forces any allocation outside its allowable ranges, the chair of the Endowment Management Committee, in conjunction with the Board chair, with the advice of staff and investment consultant, may temporarily waive the allocation limits imposed above if it is determined that remaining in compliance may cause harm to the long-term return potential of the endowment.

INVESTMENT MANAGEMENT

The endowment of the System will be managed primarily by external investment management organizations. Investment managers have discretion to manage the assets in each portfolio to best achieve the investment objectives, within the policies and requirements set forth in this statement, the investment manager agreement with the System including the guidelines for each investment manager, and subject to the usual standards of fiduciary prudence.

Each active investment manager with whom the System has a separate account will be provided with written statements of investment objectives and guidelines as part of the investment management contract that will govern his or her portfolio. These objectives shall describe the role the investment manager is expected to play within the manager structure, the objectives and comparative benchmarks that will be used to evaluate performance, and the allowable securities that can be used to achieve these objectives. Each manager will report performance quarterly, and if applicable monthly, consistent with these objectives, ~~and also indicate current annualized income and yield~~. These statements will be consistent with the Statement of Investment Objectives and Policies for the overall endowment as set forth herein. Investment managers will be provided with a copy of the Statement of Investment Objectives and Policies.

Additionally, each manager will be expected to use best efforts to realize the best execution price when trading securities, and the settlement of all transactions (except investment pool funds and mutual funds) shall be done on a delivery versus payment basis.

SECURITIES LENDING

Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the University of Houston System and the custodian pursuant to a written agreement approved by the Board of Regents. 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 cannot dictate whether or not the manager will engage in securities lending. Therefore, System and its investment consultant shall 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.

PROXY VOTING

The University of Houston System has delegated proxy voting responsibility for separately managed accounts to its investment managers. Such separate account managers are to vote proxies in such a way as to maximize the value of related shares and in a manner consistent with the best interests of the University. It is noted in the case of commingled vehicles, voting rights on underlying company shares do not flow through to the System.

ADVISORY COMMITTEES

The Endowment Management Committee may establish advisory groups to provide general investment advice, as well as advice on special investments, to the Endowment Management Committee and the staff of the Senior Vice Chancellor for Administration and Finance.

DISCLOSURE AND CONFLICTS OF INTEREST

Investment managers, advisors, and potential managers must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with their respective duties to the System. Investment managers and advisors must, on an annual basis, ensure that such disclosures are prominently set forth, are delivered in plain language, and communicate the relevant information using the Texas State Auditor's Uniform Disclosure Form. Furthermore, investment managers, advisors, and potential managers are investing public funds and are subject to the Texas Open Records Act.

REVIEW PROCEDURES

A. Performance Measurement

The Endowment Management Committee will review quarterly the performance of the endowment and each investment manager's portfolio relative to the objectives and guidelines described herein. The investment performance review will include comparisons with unmanaged market indices, ~~and the Consumer Price Index~~. A time-weighted return formula (that minimizes the effect of contributions and withdrawals) will be utilized for the overall endowment, although it is understood that individual managers may be evaluated using a dollar-weighted methodology, where appropriate.

B. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.

APPENDIX A

Current Policy Targets, Ranges, and Benchmarks

<u>Asset Class</u>	<u>LT Target</u>	<u>Range</u>	<u>Benchmark</u>
<u>Public Equities</u>	<u>46%</u>	<u>42% to 62%</u>	<u>MSCI ACWI</u>
<i><u>U.S. Equity</u></i>	<u>21%</u>	<u>17% to 27%</u>	<u>Russell 3000</u>
<i><u>Non-U.S. Developed Markets Equity</u></i>	<u>15%</u>	<u>5% to 19%</u>	<u>MSCI EAFE</u>
<i><u>Emerging Markets Equity</u></i>	<u>5%</u>	<u>0% to 10%</u>	<u>MSCI Emerging Markets</u>
<i><u>Global Equity</u></i>	<u>5%</u>	<u>0% to 10%</u>	<u>MSCI ACWI</u>
<u>Private Markets</u>	<u>31%</u>	<u>21 to 41%</u>	
<i><u>Private Equity</u>¹</i>	<u>22%</u>	<u>17% to 27%</u>	<u>C A Global All PE (Qtr Lag)</u>
<i><u>Private Debt</u></i>	<u>3%</u>	<u>0% to 6%</u>	<u>C A Global Credit (Qtr Lag)</u>
<i><u>Private Real Assets</u>²</i>	<u>6%</u>	<u>3% to 9%</u>	<u>C A Global Real Assets w/ RE (Qtr Lag)</u>
<u>Marketable Real Assets</u>	<u>3%</u>	<u>1% to 7%</u>	<u>25% Barclays US TIPS /25% MSCI World Natural Resources /25% MSCI U.S. REIT /25% Bloomberg Commodity TR</u>
<u>Diversifying Growth Assets</u>	<u>5%</u>	<u>0% to 10%</u>	
<i><u>Hedge Funds</u></i> ³	<u>5%</u>	<u>0% to 10%</u>	<u>HFRI Fund of Funds Composite</u>
<u>Risk Reduction Assets</u>	<u>15%</u>	<u>5% to 20%</u>	
<i><u>Bonds and Cash</u></i>	<u>15%</u>	<u>5%-20%</u>	<u>Dynamic Bonds and Cash Benchmark (Bloomberg Barclays Intermediate Aggregate Index and BofA ML 91 Day Treasury Bills)</u>

<u>Asset Class</u>	<u>LT Target</u>	<u>Range</u>	<u>Benchmark</u>
<u>Return Enhancement Assets</u>	<u>70%</u>	<u>60 to 80%</u>	
<i><u>Global Equities</u></i>	<u>45%</u>	<u>35 to 55%</u>	<u>MSCI ACWI</u>
<i><u>U.S. Equity</u></i>		<u>20 to 35%</u>	
<i><u>Non-U.S. Equity</u></i>		<u>10 to 20%</u>	
<i><u>Emerging Markets Equity</u></i>		<u>5 to 15%</u>	
<i><u>Private Equity/Venture Capital</u>¹</i>	<u>25%</u>	<u>10 to 35%</u>	<u>Russell 3000</u>
<i><u>Private Equity</u></i>		<u>5 to 20%</u>	

Venture Capital		5 to 15%	
Real Assets ²	10%	5 to 15%	
Marketable Real Assets		2 to 8%	25% Barclays US TIPS / 25% MSCI World Natural Resources / 25% MSCI U.S. REIT / 25% Bloomberg Commodity TR
Private Real Assets		5 to 12%	70% S&P Natural Resource Sector / 30% MSCI U.S. REIT
Diversifying Growth Assets	5%	0% to 10%	
Hedge Funds ³	5%	0% to 10%	HFRI Fund of Funds Composite
Risk Reduction Assets	15%	5 to 20%	
Bonds and Cash	15%	5 to 20%	Dynamic Bonds and Cash Benchmark (Bloomberg-Barclays Intermediate-Aggregate Index and BofA ML 91 Day Treasury Bills)

¹ Private Equity/~~Venture Capital~~: Managers to be considered for inclusion in this category include private equity ~~or venture capital managers~~ and other related partnership funds with similar return objectives subject to multi-year lock-ups. Unfunded commitments plus NAV of Private Equity/~~Venture Capital~~ investments should not exceed 45% of the Endowment. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

Unfunded commitments plus NAV of all Private Investments (~~Private Real Assets~~, Private Equity, Private Debt, and Private Real Assets~~and Venture Capital~~) should not exceed 55% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

² Private Real Assets: Assets included in this category may include private real estate, ~~public real estate (REITs), Treasury Inflation Protected Securities (TIPS), Global Linkers (Non-U.S. Inflation Linked Bonds)~~, Energy, Infrastructure, Natural Resources, and Commodities. Unfunded commitments plus NAV of Private Real Assets investments should not exceed 18% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

³ Hedge Funds: Assets to be considered for inclusion in this category would primarily include Equity-Oriented Long-Short Hedge Funds, Defensive Arbitrage, Global Macro, and Multi-Strategy Hedge Funds. Other more liquid diversifying funds may also be included. Credit strategies may also be held in some circumstances as absolute return vehicles, and in some circumstances a particular real estate manager may be viewed to qualify as such a holding as well.



PRIVATE MARKETS

Recommendation:

- Advent International GPE X

ADVENT INTERNATIONAL GPE X

NEPC recommends a \$10.0 million commitment to Advent International GPE X

- **Advent International GPE X is a Private Equity Buyout fund with a global focus, investing in a broad range of industries such as Financial Services, Healthcare, Technology, and Retail/Consumer Services**
 - Target raise: \$23B; anticipated deployment: 35-40 investments
 - Return target: 20%+ IRR, 2.0x return multiple (TVPI)
 - Pursues control-oriented buyouts and recapitalizations primarily in North America and Europe
 - Advent has an exceptionally deep and experienced team; firm has 14 offices in 12 countries, resulting in one of the most wide-ranging networks in the industry
- **Exceptional returns – four of past five Advent funds have been top quartile performers**
 - Fund VII: 15.18% IRR, 1.97x TVPI, 1.37x DPI
 - Fund VIII: 26.94% IRR, 2.25x TVPI, 0.71x DPI
 - Fund IX: 129.58% IRR, 3.01x TVPI, 0.16x DPI
- **Commitment would continue UHS relationship with Advent**
 - UHS commitment history with Advent:

Fund	Vintage Year	Commitment
Advent International GPE Fund VII, L.P.	2012	\$5.0 million
Advent International GPE VIII-B, L.P.	2015	\$6.0 million
Advent International GPE IX, L.P.	2019	\$7.0 million



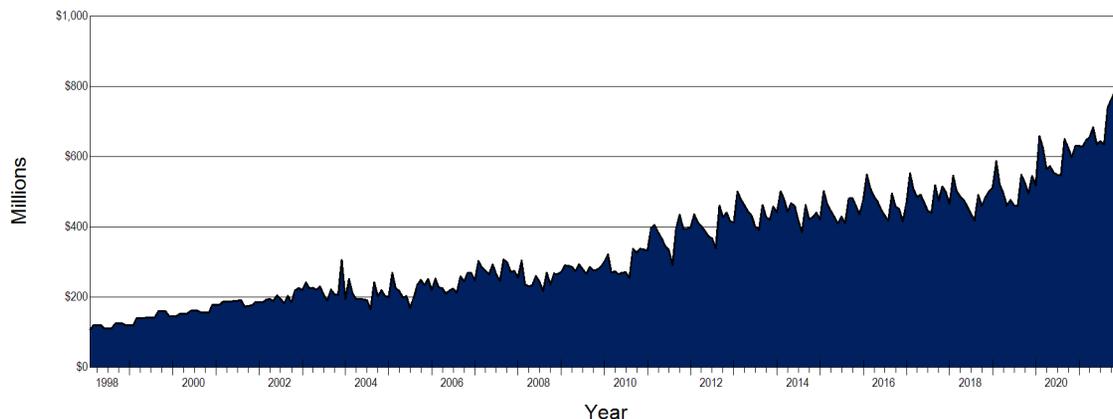


INVESTMENT PERFORMANCE: UHS NON-ENDOWED ASSETS



University of Houston System Non-Endowed Assets INVESTMENT PERFORMANCE

Portfolio Market Value

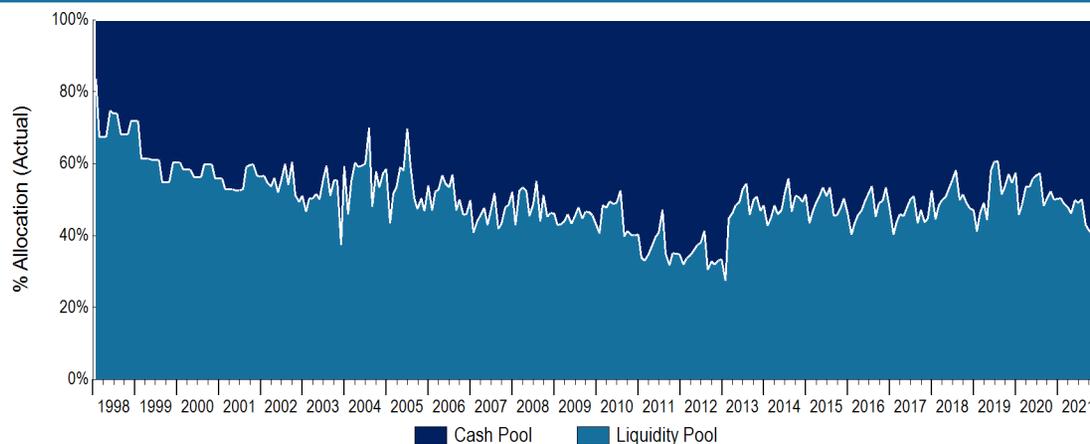


	YTD	Fiscal YTD	3 Yrs	5 Yrs
UHS Non-Endowed Assets	-0.5%	-0.5%	2.2%	1.8%
<i>Dynamic Benchmark</i>	-0.4%	-0.4%	--	--
<i>Non-Endowed Policy Benchmark</i>	-0.4%	-0.4%	1.9%	1.7%
Cash Pool	-0.5%	-0.5%	0.7%	0.9%
<i>ICE BofA 91 Days T-Bills TR</i>	0.0%	0.0%	1.0%	1.1%
Liquidity Pool	-0.7%	-0.7%	3.5%	2.5%
<i>ICE BofA 1-5 Yrs US Corp & Govt TR</i>	-0.9%	-0.9%	2.9%	2.3%

Market Value

UHS Non-Endowed Assets **\$801,752,943**

Asset Allocation History



Portfolio Characteristics

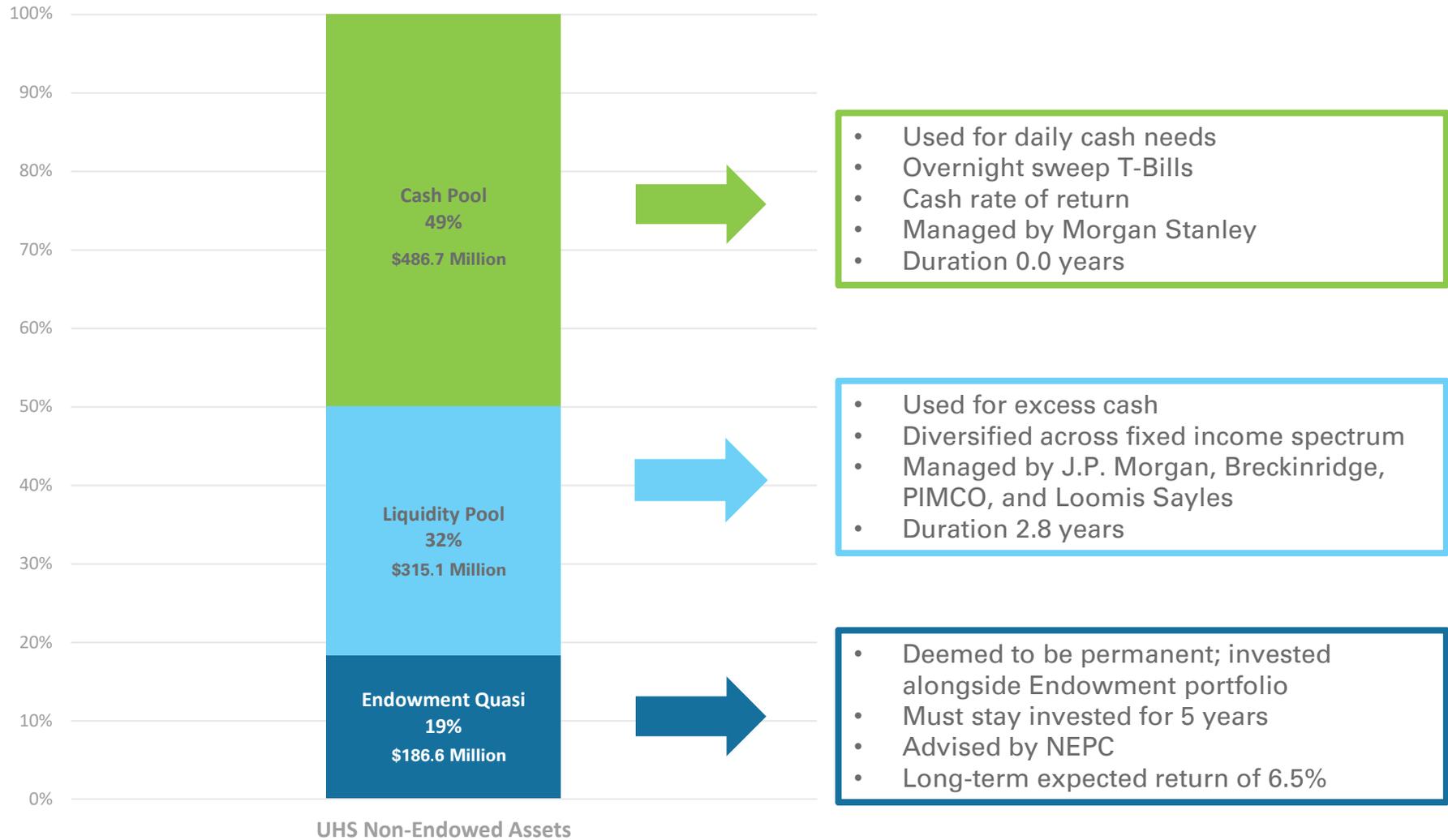


Dynamic Benchmark: Designed to match the actual composition of the portfolio, the Dynamic Benchmark evolves over time with market movements and changes to the portfolio. The Dynamic Benchmark is calculated monthly using the return for each manager's passive index multiplied by that manager's percentage weight within the portfolio at the beginning of the month. Because it evolves to match the way dollars are actually invested, the Dynamic Benchmark is a useful tool for evaluating the impact of manager performance.

Non-Endowed Policy Benchmark: The Policy Benchmark changes only infrequently. It is calculated monthly according to a formula specified in the Investment Policy Statement. For each asset class, the return for the passive benchmark for an asset class is multiplied by the target weight outlined in the Policy; the Policy Benchmark is simply the sum of these figures. The Policy Benchmark measures the return for the Policy asset allocation. Currently comprised of comprised of 50% ICE BofA AAA-A US Corp & Govt TR and 50% BofA Merrill Lynch 91-Day T-Bill.

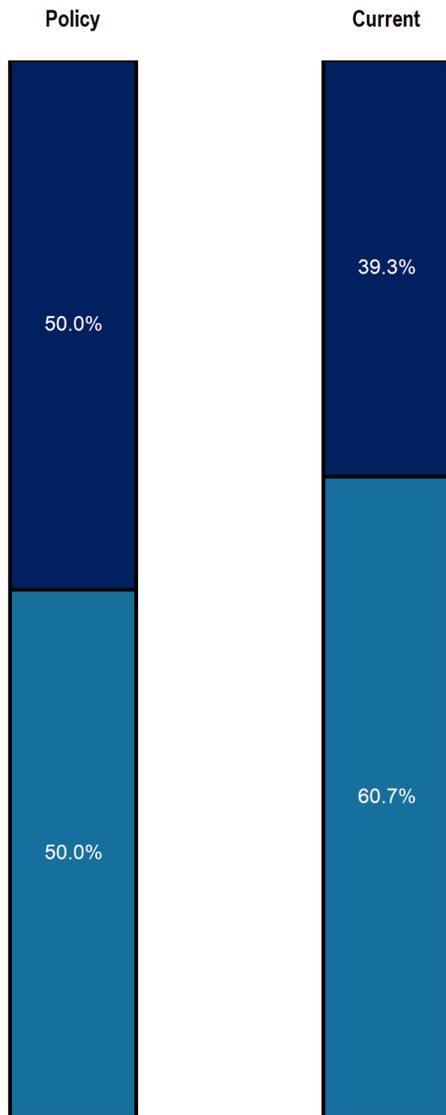


NON-ENDOWED ASSETS COMPOSITION



University of Houston System Non-Endowed Assets

ACTUAL ASSET ALLOCATION VS. POLICY TARGETS



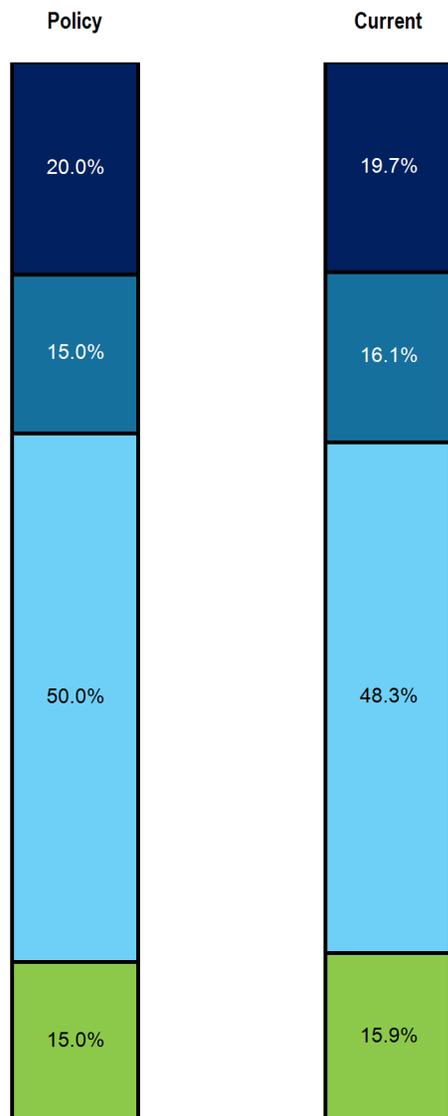
	Asset Allocation vs. Target				Policy Range	Within Range
	Current	Policy	Current Difference*			
Fixed Income	\$315,074,400	50.0%	39.3%	-10.7%	0.0% - 70.0%	Yes
Cash	\$486,678,543	50.0%	60.7%	10.7%	30.0% - 100.0%	Yes
Total	\$801,752,943	100.0%	100.0%			

*Difference between Policy and Current Allocation



University of Houston System Non-Endowed Assets

ACTUAL ASSET ALLOCATION VS. POLICY TARGETS



	Asset Allocation vs. Target				Policy Range	Within Range
	Current	Policy	Current Difference*			
Core Fixed Income	\$62,191,443	20.0%	19.7%	-0.3%	0.0% - 30.0%	Yes
Core Plus	\$50,764,853	15.0%	16.1%	1.1%	0.0% - 25.0%	Yes
Gov/Credit	\$152,169,178	50.0%	48.3%	-1.7%	0.0% - 100.0%	Yes
Absolute Return	\$49,948,926	15.0%	15.9%	0.9%	0.0% - 25.0%	Yes
Total	\$315,074,400	100.0%	100.0%			

*Difference between Policy and Current Allocation



University of Houston System Non-Endowed Assets

PERFORMANCE DETAIL

	Market Value (\$)	% of Portfolio	Ending December 31, 2021					Inception (%)	Inception Date
			3 Mo (%)	1 Yr (%)	3 Yrs (%)	5 Yrs (%)	10 Yrs (%)		
UHS Non-Endowed Assets	801,752,943	100.0	-0.2	-0.5	2.2	1.8	1.1	2.8	Jan-98
<i>Dynamic Benchmark</i>			-0.2	-0.4	--	--	--	--	Jan-98
<i>Non-Endowed Policy Benchmark</i>			-0.3	-0.4	1.9	1.7	--	--	Jan-98
Cash Pool	486,678,543	60.7	0.0	-0.5	0.7	0.9	0.5	1.9	Jan-98
<i>ICE BofA 91 Days T-Bills TR</i>			0.0	0.0	1.0	1.1	0.6	1.9	Jan-98
Morgan Stanley Instl. Liquid Treasuries- Clear Lake	38,143,371	4.8	0.0	0.0	-0.6	0.1	0.0	1.7	Jan-98
Morgan Stanley Instl. Liquid Treasuries- Downtown	43,914,787	5.5	0.0	0.0	-0.6	0.1	0.0	1.7	Jan-98
Morgan Stanley Instl. Liquid Treasuries- U. of Houston	355,907,781	44.4	0.0	0.0	-0.6	0.1	0.0	1.7	Jan-98
Morgan Stanley Instl. Liquid Treasuries- UofH System	18,467,049	2.3	0.0	0.0	-0.6	0.1	0.0	1.7	Jan-98
Morgan Stanley Instl. Liquid Treasuries- Victoria	9,249,913	1.2	0.0	0.0	-0.6	0.1	0.0	1.7	Jul-98
Morgan Stanley Instl. Liquid Treasuries Securities Portfolio	20,995,643	2.6	0.0	0.0	--	--	--	0.0	Dec-20
Liquidity Pool	315,074,400	39.3	-0.5	-0.7	3.5	2.5	1.7	3.6	Jan-98
<i>ICE BofA 1-5 Yrs US Corp & Govt TR</i>			-0.7	-0.9	2.9	2.3	1.8	3.7	Jan-98
JP Morgan - Univ. of Houston	152,169,178	19.0	-0.6	-0.9	2.7	2.1	1.5	3.5	Jan-98
<i>ICE BofA 1-5 Yrs AAA-A US Corp & Govt TR</i>			-0.7	-1.0	2.6	2.1	1.6	3.5	Jan-98
<i>ICE BofA 1-5 Yrs US Corp & Govt TR</i>			-0.7	-0.9	2.9	2.3	1.8	3.7	Jan-98
PIMCO Dynamic Bond Fund	49,948,926	6.2	-0.9	0.3	--	--	--	2.9	May-19
<i>3-Month Libor Total Return USD</i>			0.0	0.2	1.0	1.4	0.9	0.8	May-19
Breckinridge Core Intermediate Government Credit Strategy	62,191,443	7.8	-0.6	-1.4	--	--	--	3.6	May-19
<i>Bloomberg US Govt/Credit Int TR</i>			-0.6	-1.4	3.9	2.9	2.4	3.4	May-19
Loomis Sayles Core Plus Full Discretion Strategy	50,764,853	6.3	0.1	-0.4	--	--	--	6.0	Jun-19
<i>Bloomberg US Govt/Credit TR</i>			0.2	-1.8	5.5	4.0	3.1	4.3	Jun-19





SHORT-DURATION CREDIT

Manager Recommendation



MANAGER RECOMMENDATION: LORD ABBETT

Fund	1 Year	3 Years	5 Years	Since Inception (1/31/2008)
Lord Abbett Short-Duration	1.5%	3.5%	2.9%	4.1%
ICE BofAML 1-5 Yr US Corp. & Govt	-0.9%	2.9%	2.3%	2.5%
<i>Excess Return</i>	2.4%	0.6%	0.7%	1.6%

- **Lord Abbett Short-Duration focuses on short-duration corporate debt**
 - Invests in bonds across the credit spectrum, typically with 0-3 years to maturity
 - Lord Abbett Short-Duration has exploited a market inefficiency and delivered significant excess returns since inception (nearly 15 years)
 - Fund has shown the ability to outperform while minimizing losses in down markets
 - Lord Abbett Short-Duration pairs well with UHS’s existing Non-Endowed Fixed Income managers and diversify risk within the Liquidity pool
 - Rising interest rates represent a primary risk for the Liquidity Pool (duration ~2.7 years); Lord Abbett would reduce duration (currently ~1.9 years); we believe achieving some balance in this regard is prudent for UHS

- **Recommendation**
 - Fund Lord Abbett Short Duration through liquidation of Breckinridge Core Intermediate Government Credit Strategy (~\$62M position)



* Return statistics are as of 12/31/21



POLICY UPDATE: UHS NON-ENDOWED ASSETS

- Strategic Analysis
- Investment Policy Update
- Manager Recommendation: Short-Duration Credit



NON-ENDOWED ASSETS ANALYSIS

- **Non-Endowed Assets exist to fund operations and provide liquidity**
 - Priorities are Safety, Liquidity, and Yield – in that order
- **Non-Endowed Assets split into three segments**
 - Cash Pool: ensures appropriate liquidity is maintained to meet the University’s obligations
 - Liquidity Pool: margin of safety in the event the Cash Pool is insufficient to meet spending
 - Quasi-Endowment: portion of the Liquidity Pool that is invested alongside the Endowment (to the degree that excess liquidity exists)
- **Following a detailed analysis of both the needs of UHS and best practices for university peers, NEPC recommends the following:**
 1. Pursue a 50-50 split between Cash and Liquidity pools (Policy currently has 45-55)
 2. Given headwinds in Fixed Income market, focus on risk mitigation in the Liquidity pool
 - Introduce Short-Duration Credit in Liquidity pool to blunt risk associated with rising interest rates
 3. Maintain Quasi-Endowment allocation of ~20%
 - Across NEPC’s higher education client base, majority of universities (notably public universities) have 20-25% of non-endowed/operating pools invested in longer-term/higher-risk quasi-endowment pools
 - Current UHS approach also consistent with fundamental purpose of Non-Endowed Assets pool
 4. Hire Lord Abbett Short Duration Credit as replacement for Breckenridge Core Intermediate Gov/Credit
 - Breckenridge and JP Morgan strategies have overlap and result on concentration of risk
 - Lord Abbett’s focus on shorter-duration credit can exploit an inefficient market and diversify risk for UHS



UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDOWED FUNDS

Approved by the Board of Regents

~~February 27, 2020~~

February 24, 2022

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

A. General Statement

All non-endowed financial assets of the University of Houston System are to be invested in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the System and conforming to all state statutes governing investment of such funds. This investment policy applies to all non-endowed financial assets of all funds of the UH System at the present time and any funds to be created in the future.

B. Investment Officer

The System Treasurer may invest funds that are not immediately required to pay obligations of the System. The Board shall designate by resolution one or more additional officers or employees as investment officers. The Endowment Management Committee may also hire an Investment Advisor to assist with the managing and monitoring of non-endowed assets, as well as, appoint one or more investment managers to invest the System's funds under the terms of this policy.

If an investment officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the System, the investment officer must file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission.

C. Quality and Capability of Investment Management

The System will provide periodic training in investments for the System Investment Officers through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the System Investment Officers in making investment decisions.

II. INVESTMENT OBJECTIVES

There are several key objectives which govern the investment philosophy and management of the System's non-endowed funds:

A. Safety and Maintenance of Adequate Liquidity

Safety of principal is a primary objective in any investment transaction involving non-endowed financial assets. The System's investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due.

B. Diversification

The System will diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

C. Yield

The System seeks to earn the maximum rate of return allowed on its investments within constraints imposed by its safety and liquidity objectives, and state and federal law governing investment of public funds.

D. Maturity

Portfolio maturities will be structured to meet the obligations of the System first and then to achieve the highest return of interest. When the System has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon investment strategy.

III. ASSET ALLOCATION AND IMPLEMENTATION

The non-endowed funds will be allocated into two tiers of liquidity to better reflect the actual liquidity requirements of these assets. The approved liquidity tiers and target allocation to each tier is as follows:

1. 50% allocated to a Cash Pool with an average one-year time horizon; designed to meet the annual operating needs of the system. The benchmark for this pool will be the Merrill Lynch 91-Day T-Bill Index.
2. 50% allocated to a Liquidity Pool with an average horizon of one to five years, designed to serve as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs. The benchmark for this pool will be the ~~ICE BofA AAA-A US Govt/Corp Index~~ BofA ML 1-5 Yr Govt/Corp Index.

A customized Total Portfolio Benchmark will be employed to measure the overall performance of the portfolio. This benchmark will blend the returns of the two benchmarks specified above, weighted according to the target allocation for each respective tier.

Policy targets and allowable ranges for the Non-Endowed Funds are as follows:

	Target Allocation	Allowable Range
Cash Pool	<u>50</u> 45%	30%% to 100%
Liquidity	<u>50</u> 55%	0% to 70%

A. Guidelines for the Cash Pool

In order to meet all cash flow requirements for the System, the Cash Pool shall be continuously invested in readily available funds such as money market mutual funds, bank deposits, overnight repurchase agreements or securities with an original maturity not greater than 90 days, to ensure that appropriate liquidity is maintained to meet the University's obligations. Safety and liquidity are the primary objectives of the Cash Pool. The following investments are permitted:

- a. Commercial bank accounts (FDIC insured or in institutions with a long-term rating no lower than A).
- b. Money market mutual funds rated AAA and meeting diversification, quality and maturity requirements of Rule 2a-7 of the Investment Company Act of 1940, or any successor rule. Funds shall be open-ended, no-load funds.
- c. Certificate of deposit issued in the U.S. by a U.S. financial institution rated with a short-term rating no lower than A-1, F-1 or P-1.
- d. U.S. Treasury securities and U.S. Federal Agency securities.
- e. Repurchase and reverse repurchase agreements with a term to maturity of one day, with counterparties having a short-term or counterparty rating of A-1, F-1 or P-1 provided the contract is fully secured by deliverable U.S. Treasury or federal agency obligations, having a market value at all times of at least 102 percent of the amount of the contract, with securities free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement. The contract will include a perfected first security interest under the Uniform Commercial Code.

B. Guidelines for the Liquidity Pool

The Liquidity Pool represents non-endowed funds that do not need to be readily available to meet the System's operating needs. Recognizing that this pool will not be accessed on a regular basis and instead serves as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs, safety and return are the objectives of this pool. Funds in this pool will be invested in marketable, publicly traded fixed income securities and mutual funds with an average duration of one to five years. In order to achieve the dual goal of protection of principal as well as yield, the Liquidity Pool will be invested with managers who pursue investments across government bonds and corporate credit as well as with managers who pursue absolute return oriented fixed income mandates. In order to appropriately manage risk and return, the following guidelines will be implemented.

Liquidity Pool	Target Allocation	Allowable Range
Short-Term Government Credit Short-Duration Government Credit	50%	40-100%
Core Fixed Income Short-Duration Credit	20%	0-30%
Core Fixed Income Plus	15%	0-25%
Absolute Return	15%	0-25%

C. Guidelines for Investment Managers

Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

Should the University engage an investment manager to manage a separately managed account for the System, detailed investment management guidelines will be agreed upon and should conform to the guidelines set forth in this document. Although the System cannot dictate investment policy to pooled funds or mutual funds, it is expected that pooled or mutual managers that conform to the investment guidelines found in the Guidelines for the Cash Pool and Liquidity Pool will be selected.

D. Guidelines for Rebalancing

Given the difference in expected return among these two pools, and the regular use of funds from the cash pool for operational purposes, these pools may need to be rebalanced occasionally. The Endowment Management Committee should consider rebalancing a pool when it exceeds a five percent over-or-underweight relative to its allowable ranges.

Between meetings of the Committee, should the exposure for any pool reach a level of 5% or more beyond the uppermost limit or 5% below the lower end of the specified range as measured at the end of the month, the Treasurer shall consult with the System's Investment Advisor and make a recommendation to the Senior Vice Chancellor for Administration and Finance or designee as to the appropriate rebalancing actions to take. By mutual agreement, those parties may then proceed to take what rebalancing actions they deem to be reasonable and practical. Any rebalancing actions taken shall be communicated to the entire Committee by the Senior Vice Chancellor for Administration and Finance in a timely matter but in any case, no later than the next Committee meeting.

In addition to rebalancing between the Cash and Liquidity Pools, from time to time the System Treasurer, together with the Investment Advisor, may evaluate the aggregate amount of non-endowed funds to determine if there is excess liquidity held across non endowed funds. In the

event that the Treasurer determines excess liquidity exists, some portion of non-endowed funds may be invested alongside the University's endowment or Long-Term Investment Pool (LTIP). Such funds would only be invested in the LTIP if it is determined that such excess liquidity is not needed to meet the short term or intermediate term operating needs of the System. Such investment in the LTIP requires approval by the Endowment Management Committee.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall provide to the Endowment Management Committee a written report of the System's investment activity for the preceding reporting period. The report shall contain:

V. OTHER INVESTMENT GUIDELINES

A. A Standard of Care

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the System's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the System.

B. Collateral or Insurance

The System Investment Officer shall ensure that all System funds held as bank deposits are fully collateralized or insured consistent with federal and state law. Acceptable forms of insurance or collateral, as shall be stipulated in the System's Bank Depository Contract, are as follows:

1. United States FDIC insurance coverage; or
2. Obligations of the United States or its agencies and instrumentalities.

C. Safekeeping

All purchased securities shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with the Federal Reserve Bank. All pledged securities as collateral by the Depository Bank shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with a Federal Reserve Bank.

D. Securities Lending

Securities owned by the System and held in custody by the System's custodian may only 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. Neither custodians nor investment managers may enter into securities lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in mutual funds, the Board cannot dictate whether or not the fund will engage in securities lending.

Therefore, the System and its Investment Advisor shall make every effort either to avoid mutual funds that participate in securities lending, or to otherwise limit investment to those managers who will not engage in securities lending.

VI. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.



UHS MANAGER WATCH LIST



UHS MANAGER WATCH LIST

- **Objective:**

- The purpose of the Watch List is to highlight managers whose ability to generate long-term excess returns has come into question.

- **Criteria for Inclusion:**

- Underperformance relative to its market-based benchmark
 - Returns lag 300bps or more relative to the funds’ benchmark over the trailing 3-year period.
- Receives a rating of “Watch”, “Hold”, “Client Review”, or “Terminate” as a result of analysis by NEPC’s Research (not simply performance concerns)
 - Ratings are assigned for numerous reasons, primarily:
 - Organizational Concerns
 - “Key Person” considerations
 - Meaningful deviation from strategy
 - Significant growth/decline in Assets Under Management
 - Changes in firm ownership
 - Other organizational developments

Key Ratings	
Watch	Issues have surfaced to be concerned over; manager can participate in future searches, but current and prospective clients must be made aware of the issues.
Hold	Serious issues have surfaced to be concerned over; manager cannot be in future searches unless a client specifically requests, but current and prospective clients must be made aware of the issues.
Client Review	Very serious issues have surfaced with a manager; manager cannot be in future searches unless a client specifically requests. Current clients must be advised to review the manager.
Terminate	We have lost all confidence in the product; manager would not be recommended for searches and clients would be discouraged from using. The manager cannot be in future searches unless a client specifically requests. Current clients must be advised to replace the manager.



UHS MANAGER WATCH LIST:

- **“Stoplight” Rating:**

- Red, Yellow, or Green rating accompanies each manager
 - Green: Intended as a “FYI”; often associated with shorter time intervals
 - Yellow: Necessitates closer monitoring
 - Red: Reflects significant concern and may warrant action including possibly termination
- Greater emphasis is given to longer time periods; relative performance for shorter periods may not be meaningful for evaluation

- **Ongoing Monitoring/Process for Removal:**

- Watch List rating and recommendation will be updated on a quarterly basis.
- On an annual basis (at a minimum) we will provide a detailed summary that highlights changes over the prior year that has bettered or worsened our view; a recommendation from NEPC regarding the extension/removal of the manager will then be provided
 - Detailed summary will also be provided on an ad-hoc basis if the situation calls for a more expedited approach; annual, detailed summary in place to incentivize long-term outlook



UHS MANAGER WATCH LIST

Details		View		Performance vs. Benchmark				
Manager	Allocation	Driver	Rating	1 Yr	3 Yr	SI	SI Date	Added to List
Silchester Int'l Value <i>MSCI EAFE</i>	International Developed Equity	<i>Performance</i>		11.6% 11.3%	9.0% 13.5%	8.3% 6.9%	August, 2009	Q4 2021
Oldfield Emerging Markets <i>MSCI EM</i>	Emerging Markets Equity	<i>Performance</i>		12.7% -2.5%	5.3% 10.9%	5.4% 5.3%	March, 2011	Q4 2019

- **Silchester International Value appears on the list as a function of performance only (3-year return trails the MSCI EAFE benchmark by > 300bps)**

 - Performance as expected given Value/Growth rotation seen over the past 2+ years
 - Silchester has outperformed during the past year; Silchester has outperformed the index since inception despite Value headwinds

- **Oldfield Emerging Markets appears on the list as a function of performance only (3-year return trails the MSCI Emerging Markets benchmark by > 300bps)**

 - Performance consistent with expectation given style/focus
 - Oldfield has outperformed dramatically for the past year; Oldfield has outperformed the index since inception despite Value headwinds



DISCLAIMERS & DISCLOSURES

Past performance is no guarantee of future results.

Returns for pooled funds, e.g. mutual funds and collective investment trusts, are collected from third parties; they are not generally calculated by NEPC. Returns for separate accounts, with some exceptions, are calculated by NEPC. Returns are reported net of manager fees unless otherwise noted.

A “since inception” return, if reported, begins with the first full month after funding, although actual inception dates (e.g. the middle of a month) and the timing of cash flows are taken into account in Composite return calculations.

NEPC’s preferred data source is the plan’s custodian bank or record-keeper. If data cannot be obtained from one of the preferred data sources, data provided by investment managers may be used. Information on market indices and security characteristics is received from additional providers. While NEPC has exercised reasonable professional care in preparing this report, we cannot guarantee the accuracy of all source information contained within. In addition, some index returns displayed in this report or used in calculation of a policy index, allocation index or other custom benchmark may be preliminary and subject to change.

All investments carry some level of risk. Diversification and other asset allocation techniques are not guaranteed to ensure profit or protect against losses.

The opinions presented herein represent the good faith views of NEPC as of the date of this presentation and are subject to change at any time. Neither fund performance nor universe rankings contained in this report should be considered a recommendation by NEPC.

This report may contain confidential or proprietary information and may not be copied or redistributed to any party not legally entitled to receive it.

Source of private fund performance benchmark data: Cambridge Associates, via Refinitiv





**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a global equity manager and the liquidation of assets within the University of Houston System Endowment Fund to fund this manager.

DATE PREVIOUSLY SUBMITTED: N/A

SUMMARY:

NEPC will discuss with the Committee their recommendation to invest with Arrowstreet Global Equity (ACWI). Arrowstreet is a public equity manager with a global equity mandate, and invests in stocks across the U. S., Non-U. S., and Emerging Markets using a quantitative approach to build a diversified portfolio. The recommended investment with Arrowstreet is \$50 million. Sources of funding for this manager will come from existing public equity and liquid real asset funds within the University of Houston System Endowment Fund.

SUPPORTING

DOCUMENTATION: NEPC discussion materials report

FISCAL NOTE: Arrowstreet \$50M

**RECOMMENDATION/
ACTION REQUESTED:** Administration recommends approval of this item

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett



DATE



CHANCELLOR

Renu Khator



DATE

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested to modify the UH System Endowment Fund Statement of Investment Objectives and Policies.

DATE PREVIOUSLY SUBMITTED: May 20, 2021

SUMMARY:

NEPC will discuss with the Committee recommended changes to UH System Endowment Fund Statement of Investment Objectives and Policies. These changes include modifications to the long term asset allocation targets, ranges, and market indices as well as stylistic changes.

SUPPORTING DOCUMENTATION: NEPC discussion materials report (redline and clean version of the UHS Endowment Fund IPS)

FISCAL NOTE: None

RECOMMENDATION/ ACTION REQUESTED: Administration recommends approval of this item.

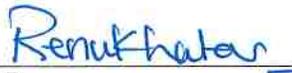
COMPONENT: University of Houston System



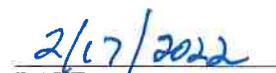
SENIOR VICE CHANCELLOR Raymond S. Bartlett



DATE



CHANCELLOR Renu Khator



DATE

UNIVERSITY OF HOUSTON SYSTEM ENDOWMENT FUND
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
Approved by the Board of Regents

~~February 27, 2020~~ February 24,

2022

PREFACE

The University of Houston System Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the endowment, thereby sustaining its ability to generate support for both current and future generations of students. As part of a commitment to long-range financial equilibrium, the Regents have adopted the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income so as to keep pace with inflation and evolving university needs, while generally performing above the average of the markets in which the assets are invested. Pursuant to Board Bylaw, the Endowment Management Committee has been established as a standing committee to assist the Board in fulfilling its fiduciary responsibilities.

To achieve its investment objectives the University of Houston System retains independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The Endowment Management Committee shall:

- a) Review and recommend to the Board changes to investment policies;
- b) Review and recommend to the Board the university advancement assessment rate;
- c) Review and recommend to the Board asset allocation long-term targets and ranges;
- d) Review and recommend to the Board external investment consultants;
- e) Monitor, evaluate, hire or terminate external investment managers;
- f) Establish investment manager guidelines;
- g) Monitor the actual allocation of assets through additions and withdrawals of funds among managers and investment media to conform to the long-term targets insofar as practical; and
- h) Oversee the results of the independent managers and report periodically to the Board and the university community.

FORWARD

This policy is intended to be ongoing until the next review is completed. Comprehensive reviews are to be completed every five years.

In addition to complying with the duty of loyalty imposed by Texas state law, each person responsible for making or retaining each and all investments and in acquiring, investing, reinvesting, exchanging, retaining, selling, supervising and managing System funds shall do so in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. It is the general practice of the University of Houston System to pool endowment resources. For investment purposes however, the assets are

managed in separate endowment fund accounts. The following statement sets out explicit policies for the pooled endowment but would apply to non-pooled holdings as well. The Regents seek superior investment returns through professional management without assuming imprudent risks. In managing and investing the System's endowment assets, the following factors, if relevant, must be considered:

- a) general economic/capital market conditions;
- b) the possible effect of inflation or deflation;
- c) the expected tax consequences, if any, of investment decisions or strategies;
- d) the role that each investment or course of action plays within the overall investment portfolio;
- e) the expected return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances, and such circumstances may change over time;
- f) the expected total return from income and the appreciation of investments;
- g) other resources of the institution;
- h) the needs of the institution and the fund to make distributions and to preserve capital; and
- i) an asset's special relationship or special value, if any, to the charitable purposes of the institution.

Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the System endowment's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably aligned with the endowment fund's stated goals and objectives.

FINANCIAL OBJECTIVES

The primary long-term financial objective for the University endowment is to preserve and enhance the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of portfolio management. Costs to manage and administer the endowment assets should be appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of investment consultant(s) and investment manager(s) to whom investment management functions are delegated. Performance of the overall endowment against this objective is measured over rolling periods of five years.

INVESTMENT OBJECTIVES

In order to meet the financial objective stated above, the primary long-term investment objective of the endowment is to earn a total rate of return that exceeds the spending rate plus university advancement assessment fee, if any, plus the costs of managing the investment fund, and expressed in real (or inflation-adjusted) terms. Given the current System spending rate of 5.3% (which includes 4% payout and 1.3% university advancement assessment), the objective of this fund will be to earn a real (inflation adjusted) return of 5.3% when measured over rolling periods of at least five years. It is also

understood that due to market conditions there may be five-year periods where this objective is exceeded and purchasing power is enhanced, as well as five-year periods where the objective is not met and purchasing power is diminished. The medium-term objective for the endowment is to outperform each of the capital markets in which assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer. In addition, the performance of the overall endowment is expected to be consistently in at least the second quartile of the university's peer group, as measured by the NACUBO-Commonfund Study of Endowments over rolling five-year time periods, as well as comparison annually to a peer group provided by an outside advisor. Thus, the Endowment Management Committee is responsible for allocating assets to segments of the market and to managers who will provide superior performance when compared with both the median performance of other educational endowments and with capital markets generally.

Finally, the total return of the University's investment portfolio should be evaluated against the return of a composite index consisting of appropriate benchmarks weighted according to the Endowment Management Committee's asset allocation targets.

INVESTMENT MANAGERS

In accordance with Board policy, hiring of investment consultants requires approval of the Board. Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

Managers of marketable securities are expected to produce a cumulative annualized total return net of fees and commissions that exceeds an appropriate benchmark index over moving three to five-year periods, and should be above a median for active investment managers using similar investment philosophies over the same time periods. At their discretion, managers may hold cash reserves and fixed income securities up to 25% of portfolio market value with the understanding that their benchmark will not be adjusted to reflect cash holdings. Managers who wish to exceed these limits should secure prior approval from the Treasurer. The Treasurer, in turn, shall seek approval from the Senior Vice Chancellor for Administration and Finance or designee.

ENDOWMENT PAYOUT POLICY

The Regents of the University of Houston System have established an endowment payout policy which attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains, net of portfolio management fees. The historical rate of payout has been 4 to 5 percent. Going forward, the endowment will maintain a payout rate of approximately 4% to 5%, with any change to this range to be approved by the Board. The payout rate will be based as a percentage of the fiscal year end market value average over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

UNIVERSITY 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 Board shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year end market value averaged over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

APPROPRIATION FOR EXPENDITURE

The endowment payout and the University Advancement Assessment fee constitute the appropriation for annual expenditure. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

- a) the duration and preservation of the endowment fund;
- b) the purposes of the institution and the endowment fund;
- c) general economic conditions;
- d) the possible effect of inflation or deflation;
- e) the expected total return from income and the appreciation of investments;
- f) other resources of the institution; and
- g) the investment policy of the institution.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the endowment as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the endowment, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately

preceding the year in which the appropriation for expenditure was made, so long as the fair market value of the endowment fund is at least \$450 million, otherwise the limit on the appropriation for expenditure in any year is 7%.

EXPENDITURE FROM UNDERWATER ENDOWMENTS

The Board, in managing and investing endowment assets, shall consider the charitable purposes of the institution and the purposes of the endowment fund. Subject to the intent of a donor expressed in an endowment gift instrument, the appropriation for expenditure from an endowment that is underwater in any year shall decrease incrementally and is eventually suspended when the market value of the endowment drops to a designated percentage of the endowment’s historical dollar value. Historical dollar value (HDV) is the aggregate value of contributions made to an endowment over time without regard to increases or decreases because of investment results. The declining spending rate from endowments that are underwater, and not otherwise expressly prohibited by a donor, is as follows:

Fund Value as a Percent of HDV	Spending rate
90 – 99.9%	75% of normal spending rate
80 – 89.9%	50% of normal spending rate
<80.0%	Suspend distributions

ASSET SELECTION AND ALLOCATION

It is understood that return enhancement assets (or equities), including both public and private equities, are to be the dominant asset class in the Endowment due to the superior long-term return offered by such assets. As such, equity assets may be thought of as the drivers of long-term Endowment return.

Although the long-term return from equity assets is superior, they have three primary drawbacks that must be addressed by investing in diversifying growth and risk reduction assets. The first is that periods of prolonged economic contraction (deflation) can be catastrophic. Although such periods are rare, the results of such periods are severe enough to warrant holding a portion of the Endowment in assets ~~(primarily intermediate to long-term high quality, non-callable fixed income securities), which that~~ are likely to retain value or to appreciate in value during such periods. ~~In this context, high quality shall mean a portfolio with an average credit quality of AA or better, although active managers may choose to hold select investment grade securities with lower ratings.~~ The goal of such holdings would be to provide sufficient liquidity to the Endowment and a measure of protection from market drawdowns to meet payout needs over a three to five year period without having to sell a significant portion of the equities at “fire sale” prices.

~~Adherence to this policy will allow the Endowment to keep returned enhancement holdings intact and reap the rewards of a return to a more normal economic environment.~~

The second drawback to an overreliance on return enhancement assets is the effects of an unexpected rise in the rate of inflation. Such rises have traditionally been problematic for most types of equity assets, and given the System's stated goal of preserving purchasing power by achieving an attractive inflation adjusted return, some portion of the Endowment ~~should~~ may be invested in assets that will appreciate in value during periods of unexpected inflation.

Lastly, equity assets are subject to greater degrees of risk. Risk takes many forms and is usually thought of in terms of volatility of investment returns. Volatile investment returns translate into a level of support for the System's programs that (even with the smoothing effect of the rolling three-year average market value payout rule) is variable over time. In order to control this variability to a tolerable level, some allocation ~~is warranted~~ to diversified growth assets that produce attractive returns, but in a more absolute (or less variable) pattern, may be warranted. It is understood that such absolute return assets will ~~invariably~~ often return less than equity assets, ~~given rational markets~~ but should provide some degree of volatility mitigation over the course of a market cycle.

After providing for the three broad categories noted above, the remainder of the Endowment should be invested in equity assets, broadly defined and broadly diversified. Broad diversification is required not only to further smooth the pattern of returns, but to protect the endowment from the risks associated with undue concentration in any one type of equity asset. Although other forms of diversification may be considered, it is understood that the Endowment's equity assets will be diversified by style (growth versus value), geography (domestic versus foreign), and market capitalization (large-cap versus small).

Current policy targets and ranges for the Endowment can be found in Appendix A.

ALTERNATIVE INVESTMENT RISKS

For the purposes of this section, "alternative investments" refers to investments in ~~long/short equity, absolute return, Private Equity, Private Debt, and, Private Real Assetsestate, and venture capital,~~ as well as other investment ~~types~~ employing leverage, short sales, or illiquid ~~investment vehicles~~. The investments are made in the Endowment in order to improve diversification, reduce overall volatility, and enhance return. However, the Endowment Management Committee recognizes that these investments also present additional risks beyond those posed by investments in traditional marketable securities such as stocks and bonds. Among these risks are:

1. *Liquidity Risk*: most alternative investments impose restrictions on redemptions or require multi-year locks.
 - a. This risk is mitigated by imposing restrictions on the amount of the Endowment that may be allocated to alternative investments as detailed

above. In addition, the Endowment Management Committee will review at least annually the level of portfolio liquidity across all asset classes in order to ensure that there is sufficient liquidity to meet all obligations.

2. *Non-regulation risk:* Historically, alternative managers have been exempt from registration with the SEC, which has allowed them to employ strategies (such as short sales and use of leverage) forbidden by most traditional investment managers, as well as to avoid disclosing specific details of their investment practices or portfolio holdings.
 - a. With the passage of the Dodd-Frank Act of 2010, almost all alternative investment managers will be required to register with the SEC under the Investment Advisers Act of 1940. This Act will require registered managers to file documents with the SEC and for public record describing the nature of the business, fees charged, types of clients, and details on compliance policies. It will also provide to investors a greater level of detail into portfolio strategy and investment.
 - b. Venture capital managers will, however, remain exempt from the Investment Advisers Act and will therefore remain unregistered with the SEC.
 - i. This risk will be mitigated by performing detailed due diligence on these managers and monitoring them regularly as described below, as well as by diversifying manager risk through multiple direct and fund-of-fund investments.
3. *Transparency Risk:* alternative managers are not required to disclose portfolio holding details to the same extent that traditional marketable managers are, and are often reluctant to do so in order to preserve their perceived advantage over other investors.
 - a. This risk will be mitigated somewhat by the Dodd-Frank Act and the increased transparency provided by the requirement to file Form ADV with the SEC. Beyond that, however, the Endowment Management Committee, staff, and any outside advisors shall emphasize those managers who will provide at least the following level of detail into their investment portfolios:
 - i. Number of short and long positions
 - ii. The use of leverage
 - iii. Net market exposure
4. *Investment Strategy Risk:* alternatives often employ sophisticated and potentially riskier strategies, and may use leverage.
 - a. This risk will be mitigated by intensive due diligence and monitoring of potential alternative managers described below. An emphasis will be 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.
5. *Foreign Currency Risk:* changes in exchange rates could adversely affect fair value of the Endowment Fund.
 - a. The Endowment Management Committee recognizes that exposure to foreign currency acts as a hedge against a declining or collapsing dollar. In this way, such investments help to reduce risk in the portfolio. However,

the Committee will review the level of exposure to foreign currencies periodically in order to ensure that there are no unintended risks in the portfolio.

The following principles shall guide the selection of alternative investment managers:

- Diversify across managers to mitigate systematic and organizational risk, but avoid over-diversification.
- Diversify by strategy and geography to decrease correlations within the program.
- Emphasize qualitative evaluation of managers, as a manager's quantitative characteristics may change over time and in different market conditions.
- Discourage the use of significant leverage, and emphasize managers with a demonstrated skill in generating returns on assets as opposed to returns on equity.
- Avoid strategies that are trading oriented, highly complex, or quantitatively driven.

In addition, the investment manager due diligence process shall include the following functions, to be performed by some combination of outside consultants/advisors and internal staff:

- Background checks
 - o Reference checks
 - o News searches
 - o Industry consultation
- Review of vendor relationships
 - o Prime brokers
 - o Auditors
 - o Fund administrators
 - o Legal counsel
- Operational review
 - o On site visits
 - o Procedural
 - o Organizational

Monitoring of the overall program-level and manager-level exposures and investment results shall be administered in accordance with the following schedule by some combination of outside consultants/advisors and internal staff:

Monthly (For Long/Short Equity and Absolute Return Managers)

- Reports of performance and asset allocation.
- Proactive contact with investment managers whose performance falls outside of the expected range.

Quarterly or Semi-Annually

- Calls with investment managers.
- For long/short equity and absolute return managers, detailed performance reports and analysis providing information such as top long positions, net and gross exposures, exposure by strategy and geography, and organizational changes.

Annually

- [On-site Diligence](#) meetings with managers and attendance at annual meetings.

The Endowment Management Committee reviews and recommends to the Board the above asset allocation long-term targets and ranges, and the actual allocation of assets will be adjusted through additions and withdrawals of funds among managers and investment media to conform to these targets insofar as practical.

REBALANCING

The Committee recognizes the importance of periodically rebalancing the Endowment's asset allocation, namely to ensure that variation in returns among assets do not create outsized deviations from target allocations that cause Endowment performance to diverge from expected policy performance. To the extent possible, and in order to control transaction costs, the Endowment will utilize naturally occurring cash movement opportunities to rebalance the Endowment portfolio. Such naturally occurring opportunities include:

- The sourcing of cash for spending needs (withdrawals)
- The infusion of cash (contributions) into the existing portfolio
- Manager changes (partial or complete subscriptions or redemptions)
- Other cash transactions (i.e., dividends, interest income, return on capital, etc.)

In recognition that market action may force portfolio allocations outside of their allowable ranges in between Endowment Management Committee meetings, authority is delegated to the Treasurer to rebalance the portfolio in order to bring it back into compliance with the Investment Policy. More generally, the Treasurer, in conjunction with the investment consultant, will closely monitor asset allocation, and will periodically rebalance the portfolio, within allowable ranges, in light of major market movements or material changes in relative asset class valuations, in an effort to control risk and enhance long-term return. Further, with the assistance of the investment consultant, the Treasurer may rebalance up to 2.0% of the Endowment Fund intra-meeting to raise cash for meeting capital calls as well as to invest any cash inflows into the Endowment based on portfolio targets. Any rebalancing must occur across previously approved managers already held within the portfolio.

Any rebalancing actions taken by the Treasurer and investment consultant shall be communicated to the Chair of the Endowment Management Committee and to the Committee by the Senior Vice Chancellor for Administration and Finance or designee in a timely manner, but in any case no later than the next Committee meeting.

The objective of this rebalancing policy is to improve the compound return of the portfolio and to ensure that it is invested in accordance with long-term asset allocation targets. It is not the intention of this policy to force the University to take any action that may endanger the safety or impair the long-term return of the portfolio simply in order to remain in compliance with allowable ranges.

A clear illustration of such a scenario might be a market correction that reduces the value of the portfolio's marketable assets to an extent that forces the private investment allocation (the valuations of which lag those of marketable securities) beyond the allowable limits prescribed above. In order to stay in compliance in such a scenario, the University may be forced to sell interests in its private investment portfolio on the secondary market at a loss, impairing the overall Endowment's ability to recover from a correction of that magnitude.

Therefore, in the event of market action that forces any allocation outside its allowable ranges, the chair of the Endowment Management Committee, in conjunction with the Board chair, with the advice of staff and investment consultant, may temporarily waive the allocation limits imposed above if it is determined that remaining in compliance may cause harm to the long-term return potential of the endowment.

INVESTMENT MANAGEMENT

The endowment of the System will be managed primarily by external investment management organizations. Investment managers have discretion to manage the assets in each portfolio to best achieve the investment objectives, within the policies and requirements set forth in this statement, the investment manager agreement with the System including the guidelines for each investment manager, and subject to the usual standards of fiduciary prudence.

Each active investment manager with whom the System has a separate account will be provided with written statements of investment objectives and guidelines as part of the investment management contract that will govern his or her portfolio. These objectives shall describe the role the investment manager is expected to play within the manager structure, the objectives and comparative benchmarks that will be used to evaluate performance, and the allowable securities that can be used to achieve these objectives. Each manager will report performance quarterly, and if applicable monthly, consistent with these objectives, ~~and also indicate current annualized income and yield~~. These statements will be consistent with the Statement of Investment Objectives and Policies for the overall endowment as set forth herein. Investment managers will be provided with a copy of the Statement of Investment Objectives and Policies.

Additionally, each manager will be expected to use best efforts to realize the best execution price when trading securities, and the settlement of all transactions (except investment pool funds and mutual funds) shall be done on a delivery versus payment basis.

SECURITIES LENDING

Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the University of Houston System and the custodian pursuant to a written agreement approved by the Board of Regents. 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 cannot dictate whether or not the manager will engage in securities lending. Therefore, System and its investment consultant shall 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.

PROXY VOTING

The University of Houston System has delegated proxy voting responsibility for separately managed accounts to its investment managers. Such separate account managers are to vote proxies in such a way as to maximize the value of related shares and in a manner consistent with the best interests of the University. It is noted in the case of commingled vehicles, voting rights on underlying company shares do not flow through to the System.

ADVISORY COMMITTEES

The Endowment Management Committee may establish advisory groups to provide general investment advice, as well as advice on special investments, to the Endowment Management Committee and the staff of the Senior Vice Chancellor for Administration and Finance.

DISCLOSURE AND CONFLICTS OF INTEREST

Investment managers, advisors, and potential managers must make full and fair disclosure of all matters that could reasonably be expected to impair their independence and objectivity or interfere with their respective duties to the System. Investment managers and advisors must, on an annual basis, ensure that such disclosures are prominently set forth, are delivered in plain language, and communicate the relevant information using the Texas State Auditor's Uniform Disclosure Form. Furthermore, investment managers, advisors, and potential managers are investing public funds and are subject to the Texas Open Records Act.

REVIEW PROCEDURES

A. Performance Measurement

The Endowment Management Committee will review quarterly the performance of the endowment and each investment manager's portfolio relative to the objectives and guidelines described herein. The investment performance review will include comparisons with unmanaged market indices ~~and the Consumer Price Index~~. A time-weighted return formula (that minimizes the effect of contributions and withdrawals) will be utilized for the overall endowment, although it is understood that individual managers may be evaluated using a dollar-weighted methodology, where appropriate.

B. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.

APPENDIX A

Current Policy Targets, Ranges, and Benchmarks

<u>Asset Class</u>	<u>LT Target</u>	<u>Range</u>	<u>Benchmark</u>
<u>Public Equities</u>	<u>46%</u>	<u>42% to 62%</u>	<u>MSCI ACWI</u>
<i>U.S. Equity</i>	<i>21%</i>	<i>17% to 27%</i>	<i>Russell 3000</i>
<i>Non-U.S. Developed Markets Equity</i>	<i>15%</i>	<i>5% to 19%</i>	<i>MSCI EAFE</i>
<i>Emerging Markets Equity</i>	<i>5%</i>	<i>0% to 10%</i>	<i>MSCI Emerging Markets</i>
<i>Global Equity</i>	<i>5%</i>	<i>0% to 10%</i>	<i>MSCI ACWI</i>
<u>Private Markets</u>	<u>31%</u>	<u>21 to 41%</u>	
<i>Private Equity¹</i>	<i>22%</i>	<i>17% to 27%</i>	<i>CJA Global All PE (Qtr Lag)</i>
<i>Private Debt</i>	<i>3%</i>	<i>0% to 6%</i>	<i>CJA Global Credit (Qtr Lag)</i>
<i>Private Real Assets²</i>	<i>6%</i>	<i>3% to 9%</i>	<i>CJA Global Real Assets w/ RE (Qtr Lag)</i>
<u>Marketable Real Assets</u>	<u>3%</u>	<u>1% to 7%</u>	<u>25% Barclays US TIPS /25% MSCI World Natural Resources /25% MSCI U.S. REIT /25% Bloomberg Commodity TR</u>
<u>Diversifying Growth Assets</u>	<u>5%</u>	<u>0% to 10%</u>	
<i>Hedge Funds³</i>	<i>5%</i>	<i>0% to 10%</i>	<i>HFRI Fund of Funds Composite</i>
<u>Risk Reduction Assets</u>	<u>15%</u>	<u>5% to 20%</u>	
<i>Bonds and Cash</i>	<i>15%</i>	<i>5%-20%</i>	<i>Dynamic Bonds and Cash Benchmark (Bloomberg Barclays Intermediate Aggregate Index and BofA ML 91 Day Treasury Bills)</i>

<u>Asset Class</u>	<u>LT Target</u>	<u>Range</u>	<u>Benchmark</u>
<u>Return Enhancement Assets</u>	<u>70%</u>	<u>60 to 80%</u>	
<i>Global Equities</i>	<i>45%</i>	<i>35 to 55%</i>	<i>MSCI ACWI</i>
<i>U.S. Equity</i>		<i>20 to 35%</i>	
<i>Non-U.S. Equity</i>		<i>10 to 20%</i>	
<i>Emerging Markets Equity</i>		<i>5 to 15%</i>	
<i>Private Equity/Venture Capital⁴</i>	<u>25%</u>	<i>10 to 35%</i>	<i>Russell 3000</i>
<i>Private Equity</i>		<i>5 to 20%</i>	

Venture Capital		5 to 15%	
Real Assets ²	10%	5 to 15%	
Marketable Real Assets		2 to 8%	25% Barclays US TIPS / 25% MSCI World Natural Resources / 25% MSCI U.S. REIT / 25% Bloomberg Commodity TR
Private Real Assets		5 to 12%	70% S&P Natural Resource Sector / 30% MSCI U.S. REIT
Diversifying Growth Assets	5%	0% to 10%	
Hedge Funds ³	5%	0% to 10%	HFRI Fund of Funds Composite
Risk Reduction Assets	15%	5 to 20%	
Bonds and Cash	15%	5 to 20%	Dynamic Bonds and Cash Benchmark (Bloomberg Barclays Intermediate Aggregate Index and BofA ML 91 Day Treasury Bills)

¹ Private Equity/~~Venture Capital~~: Managers to be considered for inclusion in this category include private equity ~~or venture capital managers~~ and other related partnership funds with similar return objectives subject to multi-year lock-ups. Unfunded commitments plus NAV of Private Equity/~~Venture Capital~~ investments should not exceed 45% of the Endowment. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

Unfunded commitments plus NAV of all Private Investments (~~Private Real Assets~~, Private Equity, ~~Private Debt~~, and ~~Private Real Assets and Venture Capital~~) should not exceed 55% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

² ~~Private~~ Real Assets: Assets included in this category may include private real estate, ~~public real estate (REITs)~~, ~~Treasury Inflation Protected Securities (TIPS)~~, ~~Global Linkers (Non U.S. Inflation Linked Bonds)~~, Energy, Infrastructure, Natural Resources, and Commodities. Unfunded commitments plus NAV of Private Real Assets investments should not exceed 18% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

³ Hedge Funds: Assets to be considered for inclusion in this category would primarily include Equity-Oriented Long-Short Hedge Funds, Defensive Arbitrage, Global Macro, and Multi-Strategy Hedge Funds. Other more liquid diversifying funds may also be included. Credit strategies may also be held in some circumstances as absolute return vehicles, and in some circumstances a particular real estate manager may be viewed to qualify as such a holding as well.

UNIVERSITY OF HOUSTON SYSTEM ENDOWMENT FUND
STATEMENT OF INVESTMENT OBJECTIVES AND POLICIES
Approved by the Board of Regents

February 24, 2022

PREFACE

The University of Houston System Board of Regents is charged with the fiduciary responsibility for preserving and augmenting the value of the endowment, thereby sustaining its ability to generate support for both current and future generations of students. As part of a commitment to long-range financial equilibrium, the Regents have adopted the broad objective of investing endowment assets so as to preserve both their real value and the long-range purchasing power of endowment income so as to keep pace with inflation and evolving university needs, while generally performing above the average of the markets in which the assets are invested. Pursuant to Board Bylaw, the Endowment Management Committee has been established as a standing committee to assist the Board in fulfilling its fiduciary responsibilities.

To achieve its investment objectives the University of Houston System retains independent investment managers each of whom plays a part in meeting the System's goals over a variety of capital market cycles. The Endowment Management Committee shall:

- a) Review and recommend to the Board changes to investment policies;
- b) Review and recommend to the Board the university advancement assessment rate;
- c) Review and recommend to the Board asset allocation long-term targets and ranges;
- d) Review and recommend to the Board external investment consultants;
- e) Monitor, evaluate, hire or terminate external investment managers;
- f) Establish investment manager guidelines;
- g) Monitor the actual allocation of assets through additions and withdrawals of funds among managers and investment media to conform to the long-term targets insofar as practical; and
- h) Oversee the results of the independent managers and report periodically to the Board and the university community.

FORWARD

This policy is intended to be ongoing until the next review is completed. Comprehensive reviews are to be completed every five years.

In addition to complying with the duty of loyalty imposed by Texas state law, each person responsible for making or retaining each and all investments and in acquiring, investing, reinvesting, exchanging, retaining, selling, supervising and managing System funds shall do so in good faith and with the care an ordinarily prudent person in a like position would exercise under similar circumstances. It is the general practice of the University of Houston System to pool endowment resources. For investment purposes however, the assets are

managed in separate endowment fund accounts. The following statement sets out explicit policies for the pooled endowment but would apply to non-pooled holdings as well. The Regents seek superior investment returns through professional management without assuming imprudent risks. In managing and investing the System's endowment assets, the following factors, if relevant, must be considered:

- a) general economic/capital market conditions;
- b) the possible effect of inflation or deflation;
- c) the expected tax consequences, if any, of investment decisions or strategies;
- d) the role that each investment or course of action plays within the overall investment portfolio;
- e) the expected return based on levels of liquidity and investment risk that are prudent and reasonable under present circumstances, and such circumstances may change over time;
- f) the expected total return from income and the appreciation of investments;
- g) other resources of the institution;
- h) the needs of the institution and the fund to make distributions and to preserve capital; and
- i) an asset's special relationship or special value, if any, to the charitable purposes of the institution.

Management and investment decisions about an individual asset must be made not in isolation but rather in the context of the System endowment's portfolio of investments as a whole and as part of an overall investment strategy having risk and return objectives reasonably aligned with the endowment fund's stated goals and objectives.

FINANCIAL OBJECTIVES

The primary long-term financial objective for the University endowment is to preserve and enhance the real (inflation-adjusted) purchasing power of endowment assets and income after accounting for endowment spending, inflation, and costs of portfolio management. Costs to manage and administer the endowment assets should be appropriate and reasonable in relation to the assets, the purposes of the endowment, and the skills of investment consultant(s) and investment manager(s) to whom investment management functions are delegated. Performance of the overall endowment against this objective is measured over rolling periods of five years.

INVESTMENT OBJECTIVES

In order to meet the financial objective stated above, the primary long-term investment objective of the endowment is to earn a total rate of return that exceeds the spending rate plus university advancement assessment fee, if any, plus the costs of managing the investment fund, and expressed in real (or inflation-adjusted) terms. Given the current System spending rate of 5.3% (which includes 4% payout and 1.3% university advancement assessment), the objective of this fund will be to earn a real (inflation adjusted) return of 5.3% when measured over rolling periods of at least five years. It is also

understood that due to market conditions there may be five-year periods where this objective is exceeded and purchasing power is enhanced, as well as five-year periods where the objective is not met and purchasing power is diminished. The medium-term objective for the endowment is to outperform each of the capital markets in which assets are invested, measured over rolling periods of three to five years or complete market cycles, with emphasis on whichever measure is longer. In addition, the performance of the overall endowment is expected to be consistently in at least the second quartile of the university's peer group, as measured by the NACUBO Study of Endowments over rolling five-year time periods, as well as comparison annually to a peer group provided by an outside advisor. Thus, the Endowment Management Committee is responsible for allocating assets to segments of the market and to managers who will provide superior performance when compared with both the median performance of other educational endowments and with capital markets generally.

Finally, the total return of the University's investment portfolio should be evaluated against the return of a composite index consisting of appropriate benchmarks weighted according to the Endowment Management Committee's asset allocation targets.

INVESTMENT MANAGERS

In accordance with Board policy, hiring of investment consultants requires approval of the Board. Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

Managers of marketable securities are expected to produce a cumulative annualized total return net of fees and commissions that exceeds an appropriate benchmark index over moving three to five-year periods, and should be above a median for active investment managers using similar investment philosophies over the same time periods. At their discretion, managers may hold cash reserves and fixed income securities up to 25% of portfolio market value with the understanding that their benchmark will not be adjusted to reflect cash holdings. Managers who wish to exceed these limits should secure prior approval from the Treasurer. The Treasurer, in turn, shall seek approval from the Senior Vice Chancellor for Administration and Finance or designee.

ENDOWMENT PAYOUT POLICY

The Regents of the University of Houston System have established an endowment payout policy which attempts to balance the long-term objective of maintaining the purchasing power of the endowment with the goal of providing a reasonable, predictable, stable, and sustainable level of income to support current needs. Payout is derived from interest, dividends and realized gains, net of portfolio management fees. The historical rate of payout has been 4 to 5 percent. Going forward, the endowment will maintain a payout rate of approximately 4% to 5%, with any change to this range to be approved by the Board. The payout rate will be based as a percentage of the fiscal year end market value average over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

UNIVERSITY 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 Board shall annually review and approve the fee. The fee will be based as a percentage of the fiscal year end market value averaged over rolling twelve quarter periods. If an endowment has been in existence less than twelve quarters, the average will be based on the number of quarters in existence.

APPROPRIATION FOR EXPENDITURE

The endowment payout and the University Advancement Assessment fee constitute the appropriation for annual expenditure. In making a determination to appropriate or accumulate, the institution shall act in good faith, with the care that an ordinarily prudent person in a like position would exercise under similar circumstances, and shall consider, if relevant, the following factors:

- a) the duration and preservation of the endowment fund;
- b) the purposes of the institution and the endowment fund;
- c) general economic conditions;
- d) the possible effect of inflation or deflation;
- e) the expected total return from income and the appreciation of investments;
- f) other resources of the institution; and
- g) the investment policy of the institution.

Generally, pursuant to the Uniform Prudent Management of Institutional Funds Act, Chapter 163, Texas Property Code, as amended, subject to the intent of a donor in a gift instrument, the Board of Regents may appropriate for expenditure or accumulate so much of the endowment as it determines is prudent for the uses, benefits, purposes, and duration for which the endowment is established. Notwithstanding the preceding sentence, the Board of Regents may not appropriate for expenditure in any year an amount greater than nine percent (9%) of the endowment, calculated on the basis of market values determined at least quarterly and averaged over a period of not less than three years immediately

preceding the year in which the appropriation for expenditure was made, so long as the fair market value of the endowment fund is at least \$450 million, otherwise the limit on the appropriation for expenditure in any year is 7%.

EXPENDITURE FROM UNDERWATER ENDOWMENTS

The Board, in managing and investing endowment assets, shall consider the charitable purposes of the institution and the purposes of the endowment fund. Subject to the intent of a donor expressed in an endowment gift instrument, the appropriation for expenditure from an endowment that is underwater in any year shall decrease incrementally and is eventually suspended when the market value of the endowment drops to a designated percentage of the endowment’s historical dollar value. Historical dollar value (HDV) is the aggregate value of contributions made to an endowment over time without regard to increases or decreases because of investment results. The declining spending rate from endowments that are underwater, and not otherwise expressly prohibited by a donor, is as follows:

Fund Value as a Percent of HDV	Spending rate
90 – 99.9%	75% of normal spending rate
80 – 89.9%	50% of normal spending rate
<80.0%	Suspend distributions

ASSET SELECTION AND ALLOCATION

It is understood that return enhancement assets (or equities), including both public and private equities, are to be the dominant asset class in the Endowment due to the superior long-term return offered by such assets. As such, equity assets may be thought of as the drivers of long-term Endowment return.

Although the long-term return from equity assets is superior, they have three primary drawbacks that must be addressed by investing in diversifying growth and risk reduction assets. The first is that periods of prolonged economic contraction (deflation) can be catastrophic. Although such periods are rare, the results of such periods are severe enough to warrant holding a portion of the Endowment in assets that are likely to retain value or appreciate in value during such periods. The goal of such holdings would be to provide liquidity to the Endowment and a measure of protection from market drawdowns.

The second drawback to an overreliance on return enhancement assets is the effects of an unexpected rise in the rate of inflation. Such rises have traditionally been problematic for most types of equity assets, and given the System’s stated goal of preserving purchasing power by achieving an attractive inflation adjusted return, some portion of the Endowment may be invested in assets that will appreciate in value during periods of unexpected inflation.

Lastly, equity assets are subject to greater degrees of risk. Risk takes many forms and is usually thought of in terms of volatility of investment returns. Volatile investment returns translate into a level of support for the System's programs that (even with the smoothing effect of the rolling three-year average market value payout rule) is variable over time. In order to control this variability to a tolerable level, some allocation to diversified growth assets that produce attractive returns, but in a more absolute (or less variable) pattern, may be warranted. It is understood that such absolute return assets will often return less than equity assets, but should provide some degree of volatility mitigation over the course of a market cycle.

After providing for the three broad categories noted above, the remainder of the Endowment should be invested in equity assets, broadly defined and broadly diversified. Broad diversification is required not only to further smooth the pattern of returns, but to protect the endowment from the risks associated with undue concentration in any one type of equity asset. Although other forms of diversification may be considered, it is understood that the Endowment's equity assets will be diversified by style (growth versus value), geography (domestic versus foreign), and market capitalization (large-cap versus small).

Current policy targets and ranges for the Endowment can be found in Appendix A.

ALTERNATIVE INVESTMENT RISKS

For the purposes of this section, "alternative investments" refers to investments in Private Equity, Private Debt, and Private Real Assets, as well as other investment types employing leverage, short sales, or illiquidity. The investments are made in the Endowment in order to improve diversification, reduce overall volatility, and enhance return. However, the Endowment Management Committee recognizes that these investments also present additional risks beyond those posed by investments in traditional marketable securities such as stocks and bonds. Among these risks are:

1. *Liquidity Risk*: most alternative investments impose restrictions on redemptions or require multi-year locks.
 - a. This risk is mitigated by imposing restrictions on the amount of the Endowment that may be allocated to alternative investments as detailed

above. In addition, the Endowment Management Committee will review at least annually the level of portfolio liquidity across all asset classes in order to ensure that there is sufficient liquidity to meet all obligations.

2. *Non-regulation risk*: Historically, alternative managers have been exempt from registration with the SEC, which has allowed them to employ strategies (such as short sales and use of leverage) forbidden by most traditional investment managers, as well as to avoid disclosing specific details of their investment practices or portfolio holdings.
 - a. With the passage of the Dodd-Frank Act of 2010, almost all alternative investment managers will be required to register with the SEC under the Investment Advisers Act of 1940. This Act will require registered managers to file documents with the SEC and for public record describing the nature of the business, fees charged, types of clients, and details on compliance policies. It will also provide to investors a greater level of detail into portfolio strategy and investment.
 - b. Venture capital managers will, however, remain exempt from the Investment Advisers Act and will therefore remain unregistered with the SEC.
 - i. This risk will be mitigated by performing detailed due diligence on these managers and monitoring them regularly as described below, as well as by diversifying manager risk through multiple direct and fund-of-fund investments.
3. *Transparency Risk*: alternative managers are not required to disclose portfolio holding details to the same extent that traditional marketable managers are, and are often reluctant to do so in order to preserve their perceived advantage over other investors.
 - a. This risk will be mitigated somewhat by the Dodd-Frank Act and the increased transparency provided by the requirement to file Form ADV with the SEC. Beyond that, however, the Endowment Management Committee, staff, and any outside advisors shall emphasize those managers who will provide at least the following level of detail into their investment portfolios:
 - i. Number of short and long positions
 - ii. The use of leverage
 - iii. Net market exposure
4. *Investment Strategy Risk*: alternatives often employ sophisticated and potentially riskier strategies, and may use leverage.
 - a. This risk will be mitigated by intensive due diligence and monitoring of potential alternative managers described below. An emphasis will be 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.
5. *Foreign Currency Risk*: changes in exchange rates could adversely affect fair value of the Endowment Fund.
 - a. The Endowment Management Committee recognizes that exposure to foreign currency acts as a hedge against a declining or collapsing dollar. In this way, such investments help to reduce risk in the portfolio. However,

the Committee will review the level of exposure to foreign currencies periodically in order to ensure that there are no unintended risks in the portfolio.

The following principles shall guide the selection of alternative investment managers:

- Diversify across managers to mitigate systematic and organizational risk, but avoid over-diversification.
- Diversify by strategy and geography to decrease correlations within the program.
- Emphasize qualitative evaluation of managers, as a manager's quantitative characteristics may change over time and in different market conditions.
- Discourage the use of significant leverage, and emphasize managers with a demonstrated skill in generating returns on assets as opposed to returns on equity.
- Avoid strategies that are trading oriented, highly complex, or quantitatively driven.

In addition, the investment manager due diligence process shall include the following functions, to be performed by some combination of outside consultants/advisors and internal staff:

- Background checks
 - o Reference checks
 - o News searches
 - o Industry consultation
- Review of vendor relationships
 - o Prime brokers
 - o Auditors
 - o Fund administrators
 - o Legal counsel
- Operational review
 - o On site visits
 - o Procedural
 - o Organizational

Monitoring of the overall program-level and manager-level exposures and investment results shall be administered in accordance with the following schedule by some combination of outside consultants/advisors and internal staff:

Monthly (For Long/Short Equity and Absolute Return Managers)

- Reports of performance and asset allocation.
- Proactive contact with investment managers whose performance falls outside of the expected range.

Quarterly or Semi-Annually

- Calls with investment managers.
- For long/short equity and absolute return managers, detailed performance reports and analysis providing information such as top long positions, net and gross exposures, exposure by strategy and geography, and organizational changes.

Annually

- Diligence meetings with managers and attendance at annual meetings.

The Endowment Management Committee reviews and recommends to the Board the above asset allocation long-term targets and ranges, and the actual allocation of assets will be adjusted through additions and withdrawals of funds among managers and investment media to conform to these targets insofar as practical.

REBALANCING

The Committee recognizes the importance of periodically rebalancing the Endowment's asset allocation, namely to ensure that variation in returns among assets do not create outsized deviations from target allocations that cause Endowment performance to diverge from expected policy performance. To the extent possible, and in order to control transaction costs, the Endowment will utilize naturally occurring cash movement opportunities to rebalance the Endowment portfolio. Such naturally occurring opportunities include:

- The sourcing of cash for spending needs (withdrawals)
- The infusion of cash (contributions) into the existing portfolio
- Manager changes (partial or complete subscriptions or redemptions)
- Other cash transactions (i.e., dividends, interest income, return on capital, etc.)

In recognition that market action may force portfolio allocations outside of their allowable ranges in between Endowment Management Committee meetings, authority is delegated to the Treasurer to rebalance the portfolio in order to bring it back into compliance with the Investment Policy. More generally, the Treasurer, in conjunction with the investment consultant, will closely monitor asset allocation, and will periodically rebalance the portfolio, within allowable ranges, in light of major market movements or material changes in relative asset class valuations, in an effort to control risk and enhance long-term return. Further, with the assistance of the investment consultant, the Treasurer may rebalance up to 2.0% of the Endowment Fund intra-meeting to raise cash for meeting capital calls as well as to invest any cash inflows into the Endowment based on portfolio targets. Any rebalancing must occur across previously approved managers already held within the portfolio.

Any rebalancing actions taken by the Treasurer and investment consultant shall be communicated to the Chair of the Endowment Management Committee and to the Committee by the Senior Vice Chancellor for Administration and Finance or designee in a timely manner, but in any case no later than the next Committee meeting.

The objective of this rebalancing policy is to improve the compound return of the portfolio and to ensure that it is invested in accordance with long-term asset allocation targets. It is not the intention of this policy to force the University to take any action that may endanger the safety or impair the long-term return of the portfolio simply in order to remain in compliance with allowable ranges.

A clear illustration of such a scenario might be a market correction that reduces the value of the portfolio's marketable assets to an extent that forces the private investment allocation (the valuations of which lag those of marketable securities) beyond the allowable limits prescribed above. In order to stay in compliance in such a scenario, the University may be forced to sell interests in its private investment portfolio on the secondary market at a loss, impairing the overall Endowment's ability to recover from a correction of that magnitude.

Therefore, in the event of market action that forces any allocation outside its allowable ranges, the chair of the Endowment Management Committee, in conjunction with the Board chair, with the advice of staff and investment consultant, may temporarily waive the allocation limits imposed above if it is determined that remaining in compliance may cause harm to the long-term return potential of the endowment.

INVESTMENT MANAGEMENT

The endowment of the System will be managed primarily by external investment management organizations. Investment managers have discretion to manage the assets in each portfolio to best achieve the investment objectives, within the policies and requirements set forth in this statement, the investment manager agreement with the System including the guidelines for each investment manager, and subject to the usual standards of fiduciary prudence.

Each active investment manager with whom the System has a separate account will be provided with written statements of investment objectives and guidelines as part of the investment management contract that will govern his or her portfolio. These objectives shall describe the role the investment manager is expected to play within the manager structure, the objectives and comparative benchmarks that will be used to evaluate performance, and the allowable securities that can be used to achieve these objectives. Each manager will report performance quarterly, and if applicable monthly, consistent with these objectives.. These statements will be consistent with the Statement of Investment Objectives and Policies for the overall endowment as set forth herein. Investment managers will be provided with a copy of the Statement of Investment Objectives and Policies.

Additionally, each manager will be expected to use best efforts to realize the best execution price when trading securities, and the settlement of all transactions (except investment pool funds and mutual funds) shall be done on a delivery versus payment basis.

SECURITIES LENDING

Securities owned by the endowment but held in custody by the endowment custodian may be lent to other parties through a contract between the University of Houston System and the custodian pursuant to a written agreement approved by the Board of Regents. 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 cannot dictate whether or not the manager will engage in securities lending. Therefore, System and its investment consultant shall make every effort to 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.

PROXY VOTING

The University of Houston System has delegated proxy voting responsibility for separately managed accounts to its investment managers. Such separate account managers are to vote proxies in such a way as to maximize the value of related shares and in a manner consistent with the best interests of the University. It is noted in the case of commingled vehicles, voting rights on underlying company shares do not flow through to the System.

ADVISORY COMMITTEES

The Endowment Management Committee may establish advisory groups to provide general investment advice, as well as advice on special investments, to the Endowment Management Committee and the staff of the Senior Vice Chancellor for Administration and Finance.

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<i>Private Debt</i>	3%	<i>0% to 6%</i>	C A Global Credit (Qtr Lag)
<i>Private Real Assets</i> ²	6%	<i>3% to 9%</i>	C A Global Real Assets w/ RE (Qtr Lag)
Marketable Real Assets	3%	1% to 7%	25% Barclays US TIPS /25% MSCI World Natural Resources /25% MSCI U.S. REIT /25% Bloomberg Commodity TR
Diversifying Growth Assets	5%	0% to 10%	
<i>Hedge Funds</i> ³	5%	<i>0% to 10%</i>	HFRI Fund of Funds Composite
Risk Reduction Assets	15%	5% to 20%	
<i>Bonds and Cash</i>	15%	<i>5%-20%</i>	Dynamic Bonds and Cash Benchmark (Bloomberg Barclays Intermediate Aggregate Index and BofA ML 91 Day Treasury Bills)

¹ Private Equity: Managers to be considered for inclusion in this category include private equity and other related partnership funds with similar return objectives subject to multi-year lock-ups. Unfunded commitments plus NAV of Private Equity investments should not exceed 45% of the Endowment. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

Unfunded commitments plus NAV of all Private Investments (Private Equity, Private Debt, and Private Real Assets) should not exceed 55% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

² Private Real Assets: Assets included in this category may include private real estate, Energy, Infrastructure, Natural Resources, and Commodities. Unfunded commitments plus NAV of Private Real Assets investments should not exceed 18% of the Endowment total market value as of the period measured. If this limit is reached, it will be evaluated by the Board to determine if the limit remains appropriate.

³ Hedge Funds: Assets to be considered for inclusion in this category would primarily include Equity-Oriented Long-Short Hedge Funds, Defensive Arbitrage, Global Macro, and Multi-Strategy Hedge Funds. Other more liquid diversifying funds may also be included. Credit strategies may also be held in some circumstances as absolute return vehicles, and in some circumstances a particular real estate manager may be viewed to qualify as such a holding as well.

**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 a private investment manager for the University of Houston System Endowment Fund.

DATE PREVIOUSLY SUBMITTED: N/A

SUMMARY:

NEPC will discuss with the Committee their recommendation to commit to a private investment fund: Advent International GPE X Limited. Advent International focuses on buyouts. The UH System currently invests with Advent International funds VII, VIII, and IX with a total commitment of \$18 million.

SUPPORTING DOCUMENTATION: NEPC discussion materials report

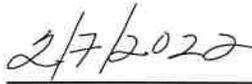
FISCAL NOTE: Advent \$10M

**RECOMMENDATION/
ACTION REQUESTED:** Administration recommends approval of this item

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett



DATE



CHANCELLOR Renu Khator



DATE

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested to delegate authority to the Chancellor to negotiate and execute contracts for the hiring of a fixed income manager for the non-endowed portfolio and the liquidation of an existing fixed income manager within the University of Houston System Non-Endowment Investment Fund.

DATE PREVIOUSLY SUBMITTED: N/A

SUMMARY:

NEPC will discuss with the Committee their recommendation to invest \$63 million in the Lord Abbett Short Duration fund. Lord Abbett's Short Duration fund invests in bonds across the credit spectrum with a short term to maturity, generally 0 – 3 years. The investment with Lord Abbett will come from the liquidation of the Breckinridge fund.

SUPPORTING DOCUMENTATION: NEPC discussion materials report

FISCAL NOTE: Breckinridge approximately \$63M

**RECOMMENDATION/
ACTION REQUESTED:** Administration recommends approval of this item

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett

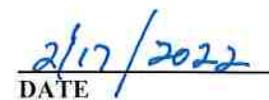


DATE



CHANCELLOR

Renu Khator



DATE

**UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management

ITEM: Approval is requested to modify the UH System Investment Policy for Non-Endowed Funds.

DATE PREVIOUSLY SUBMITTED: February 25, 2021

SUMMARY:

NEPC will discuss with the Committee recommended changes to UH System Investment Policy for Non-Endowed Funds. These changes include modifications to the allocation across cash and liquidity pools, diversification of fixed income risk, and market indices.

SUPPORTING DOCUMENTATION: NEPC discussion materials report (redline and clean version of the UHS Non-Endowed Funds IPS)

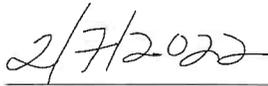
FISCAL NOTE: None

RECOMMENDATION/ ACTION REQUESTED: Administration recommends approval of this item.

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett



DATE



CHANCELLOR Renu Khator



DATE

UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDOWED FUNDS

Approved by the Board of Regents

~~February 27, 2020~~

February 24, 2022

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

A. General Statement

All non-endowed financial assets of the University of Houston System are to be invested in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the System and conforming to all state statutes governing investment of such funds. This investment policy applies to all non-endowed financial assets of all funds of the UH System at the present time and any funds to be created in the future.

B. Investment Officer

The System Treasurer may invest funds that are not immediately required to pay obligations of the System. The Board shall designate by resolution one or more additional officers or employees as investment officers. The Endowment Management Committee may also hire an Investment Advisor to assist with the managing and monitoring of non-endowed assets, as well as, appoint one or more investment managers to invest the System's funds under the terms of this policy.

If an investment officer has a personal business relationship with an entity or is related within the second degree by affinity or consanguinity to an individual seeking to sell an investment to the System, the investment officer must file a statement disclosing that personal business interest or relationship with the Texas Ethics Commission.

C. Quality and Capability of Investment Management

The System will provide periodic training in investments for the System Investment Officers through courses and seminars offered by professional organizations and associations in order to insure the quality, capability and currency of the System Investment Officers in making investment decisions.

II. INVESTMENT OBJECTIVES

There are several key objectives which govern the investment philosophy and management of the System's non-endowed funds:

A. Safety and Maintenance of Adequate Liquidity

Safety of principal is a primary objective in any investment transaction involving non-endowed financial assets. The System's investment portfolio must be structured in conformance with an asset/liability management plan that provides for liquidity necessary to pay obligations as they become due.

B. Diversification

The System will diversify its portfolio to eliminate the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer or a specific class of investments.

C. Yield

The System seeks to earn the maximum rate of return allowed on its investments within constraints imposed by its safety and liquidity objectives, and state and federal law governing investment of public funds.

D. Maturity

Portfolio maturities will be structured to meet the obligations of the System first and then to achieve the highest return of interest. When the System has funds that will not be needed to meet current-year obligations, maturity restraints will be imposed based upon investment strategy.

III. ASSET ALLOCATION AND IMPLEMENTATION

The non-endowed funds will be allocated into two tiers of liquidity to better reflect the actual liquidity requirements of these assets. The approved liquidity tiers and target allocation to each tier is as follows:

1. 50% allocated to a Cash Pool with an average one-year time horizon; designed to meet the annual operating needs of the system. The benchmark for this pool will be the Merrill Lynch 91-Day T-Bill Index.
2. 50% allocated to a Liquidity Pool with an average horizon of one to five years, designed to serve as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs. The benchmark for this pool will be the ~~ICE BofA AAA-A US Govt/Corp Index~~ BofA ML 1-5 Yr Govt/Corp Index.

A customized Total Portfolio Benchmark will be employed to measure the overall performance of the portfolio. This benchmark will blend the returns of the two benchmarks specified above, weighted according to the target allocation for each respective tier.

Policy targets and allowable ranges for the Non-Endowed Funds are as follows:

	Target Allocation	Allowable Range
Cash Pool	50 45%	30%% to 100%
Liquidity	50 55%	0% to 70%

A. Guidelines for the Cash Pool

In order to meet all cash flow requirements for the System, the Cash Pool shall be continuously invested in readily available funds such as money market mutual funds, bank deposits, overnight repurchase agreements or securities with an original maturity not greater than 90 days, to ensure that appropriate liquidity is maintained to meet the University's obligations. Safety and liquidity are the primary objectives of the Cash Pool. The following investments are permitted:

- a. Commercial bank accounts (FDIC insured or in institutions with a long-term rating no lower than A).
- b. Money market mutual funds rated AAA and meeting diversification, quality and maturity requirements of Rule 2a-7 of the Investment Company Act of 1940, or any successor rule. Funds shall be open-ended, no-load funds.
- c. Certificate of deposit issued in the U.S. by a U.S. financial institution rated with a short-term rating no lower than A-1, F-1 or P-1.
- d. U.S. Treasury securities and U.S. Federal Agency securities.
- e. Repurchase and reverse repurchase agreements with a term to maturity of one day, with counterparties having a short-term or counterparty rating of A-1, F-1 or P-1 provided the contract is fully secured by deliverable U.S. Treasury or federal agency obligations, having a market value at all times of at least 102 percent of the amount of the contract, with securities free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement. The contract will include a perfected first security interest under the Uniform Commercial Code.

B. Guidelines for the Liquidity Pool

The Liquidity Pool represents non-endowed funds that do not need to be readily available to meet the System's operating needs. Recognizing that this pool will not be accessed on a regular basis and instead serves as a margin of safety in the unlikely event that the cash pool is insufficient to meet spending needs, safety and return are the objectives of this pool. Funds in this pool will be invested in marketable, publicly traded fixed income securities and mutual funds with an average duration of one to five years. In order to achieve the dual goal of protection of principal as well as yield, the Liquidity Pool will be invested with managers who pursue investments across government bonds and corporate credit as well as with managers who pursue absolute return oriented fixed income mandates. In order to appropriately manage risk and return, the following guidelines will be implemented.

Liquidity Pool	Target Allocation	Allowable Range
Short Term Government Credit Short-Duration Government Credit	50%	40-100%
Core Fixed Income Short-Duration Credit	20%	0-30%
Core Fixed Income Plus	15%	0-25%
Absolute Return	15%	0-25%

C. Guidelines for Investment Managers

Hiring of investment managers requires Endowment Management Committee approval except, when on the recommendation of the committee staff and the investment consultant, the chair of the Endowment Management Committee and the chair of the Finance and Administration Committee jointly determine that time is of the essence and immediate action in lieu of a called committee meeting is necessary to hire or terminate an investment manager, the recommended change can then be made. The chair of the Endowment Management Committee will have the staff immediately report any such action taken to the members of the Endowment Management Committee and the Chairman of the Board of Regents after such action is taken.

Should the University engage an investment manager to manage a separately managed account for the System, detailed investment management guidelines will be agreed upon and should conform to the guidelines set forth in this document. Although the System cannot dictate investment policy to pooled funds or mutual funds, it is expected that pooled or mutual managers that conform to the investment guidelines found in the Guidelines for the Cash Pool and Liquidity Pool will be selected.

D. Guidelines for Rebalancing

Given the difference in expected return among these two pools, and the regular use of funds from the cash pool for operational purposes, these pools may need to be rebalanced occasionally. The Endowment Management Committee should consider rebalancing a pool when it exceeds a five percent over-or-underweight relative to its allowable ranges.

Between meetings of the Committee, should the exposure for any pool reach a level of 5% or more beyond the uppermost limit or 5% below the lower end of the specified range as measured at the end of the month, the Treasurer shall consult with the System’s Investment Advisor and make a recommendation to the Senior Vice Chancellor for Administration and Finance or designee as to the appropriate rebalancing actions to take. By mutual agreement, those parties may then proceed to take what rebalancing actions they deem to be reasonable and practical. Any rebalancing actions taken shall be communicated to the entire Committee by the Senior Vice Chancellor for Administration and Finance in a timely matter but in any case, no later than the next Committee meeting.

In addition to rebalancing between the Cash and Liquidity Pools, from time to time the System Treasurer, together with the Investment Advisor, may evaluate the aggregate amount of non-endowed funds to determine if there is excess liquidity held across non endowed funds. In the

event that the Treasurer determines excess liquidity exists, some portion of non-endowed funds may be invested alongside the University's endowment or Long-Term Investment Pool (LTIP). Such funds would only be invested in the LTIP if it is determined that such excess liquidity is not needed to meet the short term or intermediate term operating needs of the System. Such investment in the LTIP requires approval by the Endowment Management Committee.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall provide to the Endowment Management Committee a written report of the System's investment activity for the preceding reporting period. The report shall contain:

V. OTHER INVESTMENT GUIDELINES

A. A Standard of Care

Investments shall be made with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived. Investment of funds shall be governed by the following investment objectives, in order of priority: preservation and safety of principal; liquidity; and yield. In determining whether an investment officer has exercised prudence with respect to an investment decision, the determination shall be made taking into consideration:

1. The investment of all funds, or funds under the System's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the System.

B. Collateral or Insurance

The System Investment Officer shall ensure that all System funds held as bank deposits are fully collateralized or insured consistent with federal and state law. Acceptable forms of insurance or collateral, as shall be stipulated in the System's Bank Depository Contract, are as follows:

1. United States FDIC insurance coverage; or
2. Obligations of the United States or its agencies and instrumentalities.

C. Safekeeping

All purchased securities shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with the Federal Reserve Bank. All pledged securities as collateral by the Depository Bank shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with a Federal Reserve Bank.

D. Securities Lending

Securities owned by the System and held in custody by the System's custodian may only 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. Neither custodians nor investment managers may enter into securities lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in mutual funds, the Board cannot dictate whether or not the fund will engage in securities lending.

Therefore, the System and its Investment Advisor shall make every effort either to avoid mutual funds that participate in securities lending, or to otherwise limit investment to those managers who will not engage in securities lending.

VI. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.

UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDOWED FUNDS

Approved by the Board of Regents February 24, 2022

I. INVESTMENT AUTHORITY AND SCOPE OF POLICY

A. General Statement

All non-endowed financial assets of the University of Houston System are to be invested in a manner that will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the System and conforming to all state statutes governing investment of such funds. This investment policy applies to all non-endowed financial assets of all funds of the UH System at the present time and any funds to be created in the future.

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A customized Total Portfolio Benchmark will be employed to measure the overall performance of the portfolio. This benchmark will blend the returns of the two benchmarks specified above, weighted according to the target allocation for each respective tier.

Policy targets and allowable ranges for the Non-Endowed Funds are as follows:

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- c. Certificate of deposit issued in the U.S. by a U.S. financial institution rated with a short-term rating no lower than A-1, F-1 or P-1.
- d. U.S. Treasury securities and U.S. Federal Agency securities.
- e. Repurchase and reverse repurchase agreements with a term to maturity of one day, with counterparties having a short-term or counterparty rating of A-1, F-1 or P-1 provided the contract is fully secured by deliverable U.S. Treasury or federal agency obligations, having a market value at all times of at least 102 percent of the amount of the contract, with securities free and clear of any lien and held by an independent third-party custodian acting solely as agent for the University, provided such third party is not the seller under the repurchase agreement. The contract will include a perfected first security interest under the Uniform Commercial Code.

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Should the University engage an investment manager to manage a separately managed account for the System, detailed investment management guidelines will be agreed upon and should conform to the guidelines set forth in this document. Although the System cannot dictate investment policy to pooled funds or mutual funds, it is expected that pooled or mutual managers that conform to the investment guidelines found in the Guidelines for the Cash Pool and Liquidity Pool will be selected.

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In addition to rebalancing between the Cash and Liquidity Pools, from time to time the System Treasurer, together with the Investment Advisor, may evaluate the aggregate amount of non-endowed funds to determine if there is excess liquidity held across non endowed funds. In the

event that the Treasurer determines excess liquidity exists, some portion of non-endowed funds may be invested alongside the University's endowment or Long-Term Investment Pool (LTIP). Such funds would only be invested in the LTIP if it is determined that such excess liquidity is not needed to meet the short term or intermediate term operating needs of the System. Such investment in the LTIP requires approval by the Endowment Management Committee.

IV. INVESTMENT REPORTING AND PERFORMANCE EVALUATION

Not less than quarterly, the System shall provide to the Endowment Management Committee a written report of the System's investment activity for the preceding reporting period. The report shall contain:

V. OTHER INVESTMENT GUIDELINES

A. A Standard of Care

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1. The investment of all funds, or funds under the System's control, over which the officer had responsibility rather than a consideration as to the prudence of a single investment; and
2. Whether the investment decision was consistent with the written investment policy of the System.

B. Collateral or Insurance

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1. United States FDIC insurance coverage; or
2. Obligations of the United States or its agencies and instrumentalities.

C. Safekeeping

All purchased securities shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with the Federal Reserve Bank. All pledged securities as collateral by the Depository Bank shall be held in safekeeping by the System, or a System account in a third-party financial institution, or with a Federal Reserve Bank.

D. Securities Lending

Securities owned by the System and held in custody by the System's custodian may only 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. Neither custodians nor investment managers may enter into securities lending agreements without the consent of the Board of Regents. The System recognizes, however, that, for those investments placed in mutual funds, the Board cannot dictate whether or not the fund will engage in securities lending.

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VI. Review and Modification of Policy

The Endowment Management Committee shall review this Policy at least once a year to determine if modifications are necessary or desirable. If substantive modifications are made, they shall be promptly communicated to responsible parties.

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management Committee

ITEM: Approval is requested for a modification to the Endowment Plus Quasi
Endowment – University of Houston System

DATE PREVIOUSLY SUBMITTED: N/A

SUMMARY:

Approval is requested to change the criteria governing the use of the distributed income from this quasi endowment. This endowment was created by the UH System Board of Regents in 1991 to support the then fundraising initiative, The Creative Partnerships Campaign (CPC). The distributed income was used as a partial match to enhance the distributed income from new gifts during the duration of the CPC. The matching program ceased at the end of the CPC during the early 1990's, and the last matching distribution was in FY2008.

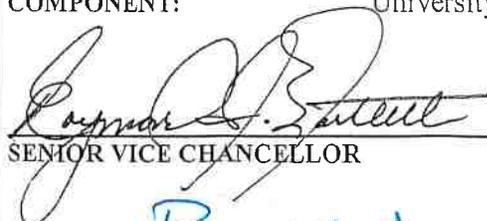
The University of Houston would like to set up a new matching program for donors to establish the Distinguished Scholars (DS) endowments, as part of a \$300 million fundraising effort to increase scholarships to recruit talented undergraduate students – Talent Matters: A Campaign for Scholarships. The new matching program will enhance the annually distributed endowment income from new DS gifts at a one-to-one ratio for a 10-year period. Additional gifts will be eligible for the match as long as matching funds are available.

SUPPORTING DOCUMENTATION: Summary of criteria governing the use of income

FISCAL NOTE: 50% Accumulated Income \$1.8M, Annual Income ~ \$190K

RECOMMENDATION/
ACTION REQUESTED: Administration recommends approval of this item

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett

DATE

2/17/2022

CHANCELLOR



Renu Khator

DATE

2/17/2022

**TALENT MATTERS: SCHOLARSHIPS – THE CAMPAIGN FOR SCHOLARSHIPS
CREATIVE PARTNERSHIPS CAMPAIGN MATCH**

{EXACT NAME OF SCHOLARSHIP TO BE INCLUDED HERE WHEN SET}

CONCEPTS AND POLICIES

“Endowment Plus 2.0” Distinguished Scholars

Concept

The University of Houston System will enhance income distribution on selected endowments ~~for in support of faculty (professorships and chairs) and student_s (~~ recruitment ~~scholarships),- received after September 1, 2021 and before August 31, 2031. The funds will be used to support recruitment scholarships for top performing students named **Distinguished Scholars** at University of Houston, ~~1990~~, which qualify for “Endowment Plus 2.0” Distinguished Scholar Award funds.~~

Criteria for Matching Income Distribution

- ~~1. S~~ Professorships, chairs, and s Scholarships in support of recruitment of high caliber students
- ~~1. the six year plans~~
- ~~2. Professorships, chairs, and scholarships related to the campaign priorities of the universities~~
2. Scholarship endowment amount to be minimum of \$100,000 to qualify for the match. For Scholarship endowment \$500,000 plus will only qualify for match or first \$500,000.
3. Scholarships to be based on the following criteria:

Student scholarship(s) will be utilized to recruit top undergraduate talent to the University of Houston. Scholarship criteria may be adjusted to align with the top recruiting efforts of the University, at the discretion of the Senior Vice President of Academic Affairs and Provost, Vice President -for University Advancement, and Vice President for Student Affairs and Enrollment Services.

At the time of Agreement, the scholarship(s) will be based on the following criteria:

- a. Enrolled full-time at the University of Houston.
- b. Preference will be given to student(s) with SAT score of 1400 or ACT score of 30 and rank in the top 10% of their graduating high school class.
- a.c. Preference for student(s) maintain a cumulative 3.25 GPA on a 4.0 scale.
- d. Restricted to a specific college.

Distribution Guidelines

1. The maximum distribution to any approved matching account will be ~~5~~100% of the income distributed from the new endowments.

TALENT MATTERS: SCHOLARSHIPS – THE CAMPAIGN FOR SCHOLARSHIPS

CONCEPTS AND POLICIES

Distinguished Scholars

Concept

The University of Houston System will enhance income distribution on selected endowments for student recruitment scholarships received after September 1, 2021 and before August 31, 2031. The funds will be used to support recruitment scholarships for top performing students named **Distinguished Scholars** at University of Houston, which qualify for **Distinguished Scholar Award** funds.

Criteria for Matching Income Distribution

1. Scholarships in support of recruitment of high caliber students
2. Scholarship endowment amount to be minimum of \$100,000 to qualify for the match. For Scholarship endowment \$500,000 plus will only qualify for match or first \$500,000.
3. Scholarships to be based on the following criteria:

Student scholarship(s) will be utilized to recruit top undergraduate talent to the University of Houston. Scholarship criteria may be adjusted to align with the top recruiting efforts of the University, at the discretion of the Senior Vice President of Academic Affairs and Provost, Vice President for University Advancement, and Vice President for Student Affairs and Enrollment Services.

At the time of Agreement, the scholarship(s) will be based on the following criteria:

- a. Enrolled full-time at the University of Houston.
- b. Preference will be given to student(s) with SAT score of 1400 or ACT score of 30 and rank in the top 10% of their graduating high school class.
- c. Preference for student(s) maintain a cumulative 3.25 GPA on a 4.0 scale.
- d. Restricted to a specific college.

Distribution Guidelines

1. The maximum distribution to any approved matching account will be 100% of the income distributed from the new endowments.

UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management Committee

ITEM: Approval is requested for the FY2022 University Advancement Endowment Assessment Rate

DATE PREVIOUSLY SUBMITTED: February 25, 2021

SUMMARY:

Approval is requested to assess System endowments at a rate of 1.2% for the fiscal year ending 2022 (spendable in FY2023) to fund administrative costs and fundraising activities. This represents the annual review and approval by the Board of this assessment. The investment policy states that the Board shall annually review and approve the fee.

SUPPORTING DOCUMENTATION: None

FISCAL NOTE: Estimated \$6.8 million

RECOMMENDATION/
ACTION REQUESTED: Administration recommends approval of this item

COMPONENT: University of Houston System

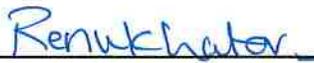


SENIOR VICE CHANCELLOR

Raymond S. Bartlett



DATE



CHANCELLOR

Renu Khator



DATE