

Agenda

I. **Endowment Management Committee**

A. Call to Order

Presenter: Chair Steve Chazen

B. Approval of Minutes

- August 20, 2020, Endowment Management Committee Meeting
- December 3, 2020, Endowment Management Committee Meeting

Action: Approval

Presenter: Chair Steve Chazen

C. Report from Cambridge Associates 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

D. Annual review and approval of 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

E. Annual review and approval of 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

F. Approval is requested for the FY2021 University Advancement Endowment Assessment Rate - University of Houston System

Action: Approval

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

Finance

II. **Executive Session**

Presenter: Chair Steve Chazen

- 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 Committee

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

DATE PREVIOUSLY SUBMITTED:

SUMMARY:

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

SUPPORTING DOCUMENTATION: Cambridge Associates discussion materials report

FISCAL NOTE: None

**RECOMMENDATION/
ACTION REQUESTED:** Information

COMPONENT: University of Houston System




SENIOR VICE CHANCELLOR

Raymond S. Bartlett

2/4/2021

DATE



CHANCELLOR

Renu Khator

2/22/2021

DATE

UNIVERSITY OF HOUSTON

DISCUSSION MATERIALS



UNIVERSITY OF HOUSTON

DISCUSSION MATERIALS

FEBRUARY 2021

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

- I. Cambridge Associates Report on UH Portfolio (Information Only)
 - a. UH Performance & Asset Allocation (Endowed & Non-Endowed)
 - b. Private Investments Update
- II. Appendix

EXECUTIVE SUMMARY



Executive Summary

Key Tabs	Comments
I. Cambridge Associates Report On UH Portfolio (Information Only)	
a. UH Performance & Asset Allocation	<p>The back half of 2020 saw markets continue their historic rally from the lows of Q1. The UH portfolio returned +13.4% during the year.</p> <p>In relative terms the total portfolio outperformed the policy benchmark by 570 bps, while the total marketable portfolio (+14.7%) outperformed the marketable benchmark by 240 bps.</p> <p>The total portfolio is outperforming the policy benchmark over the trailing 3 and 5 year periods.</p>
b. Private Investments Update	We review the private performance through the first 9 months of 2020.
II. Appendix	

A. UH PERFORMANCE & ASSET ALLOCATION

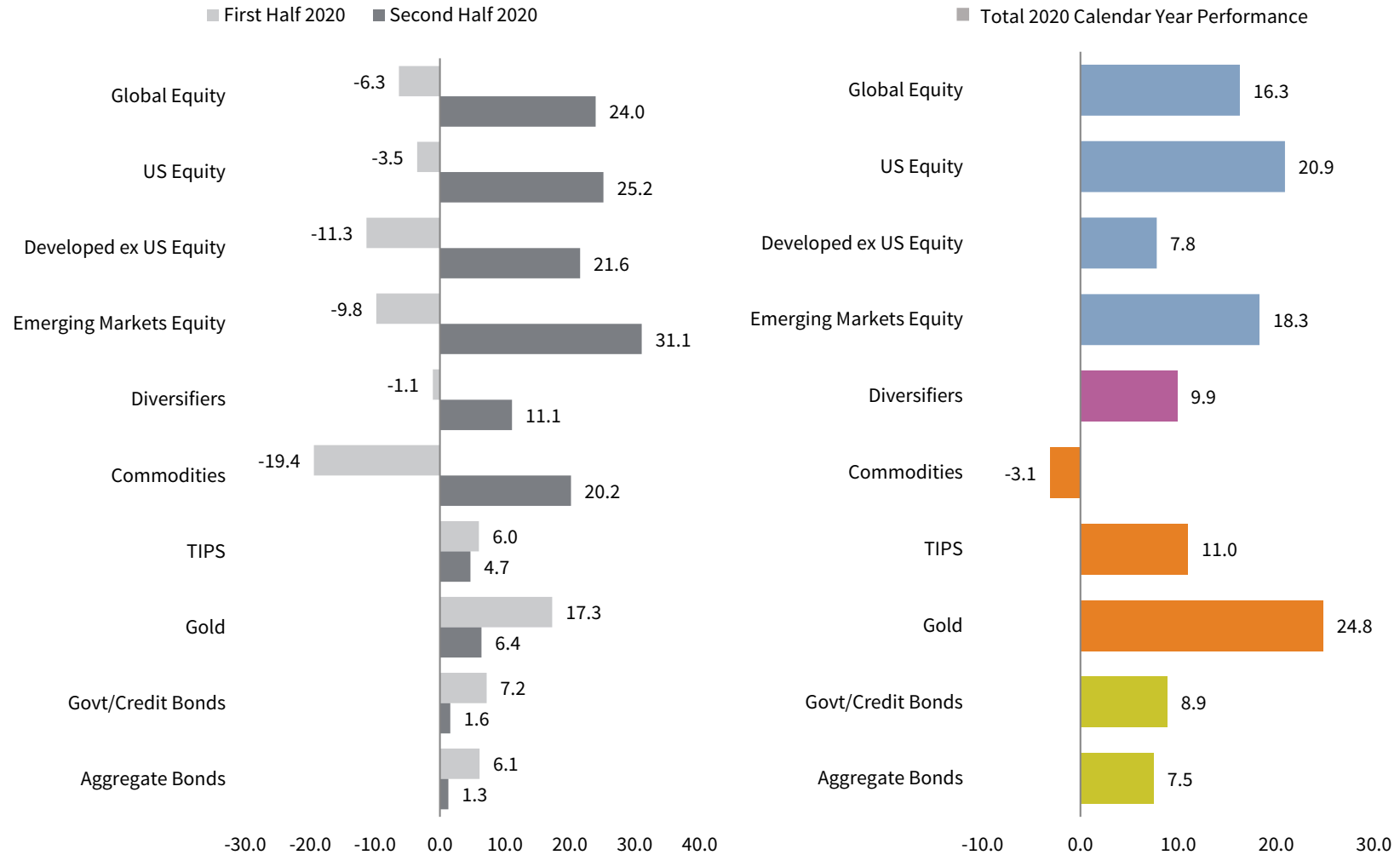


Market backdrop

2020: A Tale of Two Halves

CALENDAR YEAR 2020 PERFORMANCE

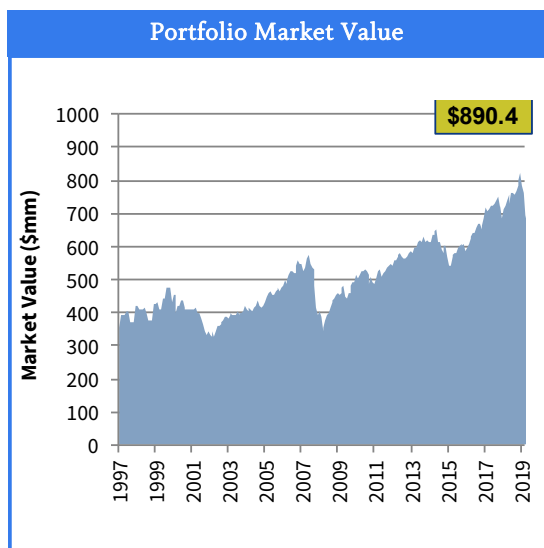
January 1, 2020 - December 31, 2020



Notes: Indices from left to right are as follows: MSCI All Country World Index (Net), Russell 3000® Index, MSCI EAFE Index (Net), MSCI Emerging Markets Index (Net), Hedge Fund Research Fund of Funds Diversified Index, Bloomberg Commodity Index Total Return, Bloomberg Barclays US TIPS Index, Gold Bullion Spot Price, Bloomberg Barclays Government/Credit Bond Index, Bloomberg Barclays Aggregate Bond Index.
Global, Developed, and Emerging Market Equity returns account for currency translation.

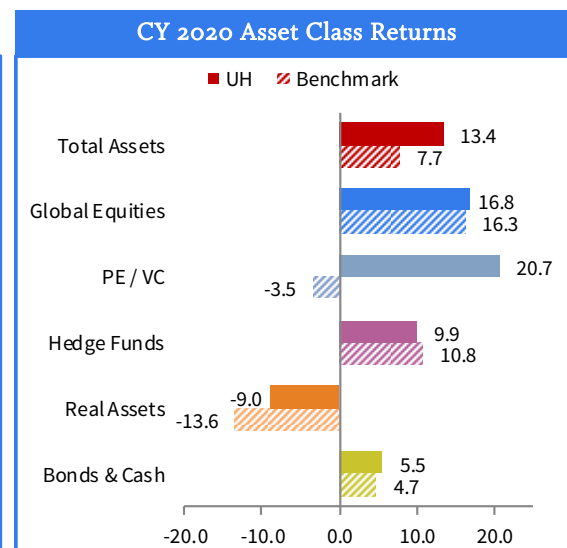
UH portfolio dashboard

UH total portfolio has returned 13.4% CYTD 2020, outperforming the policy benchmark by 570 bps. The portfolio is outperforming over the trailing 3 and 5 year periods



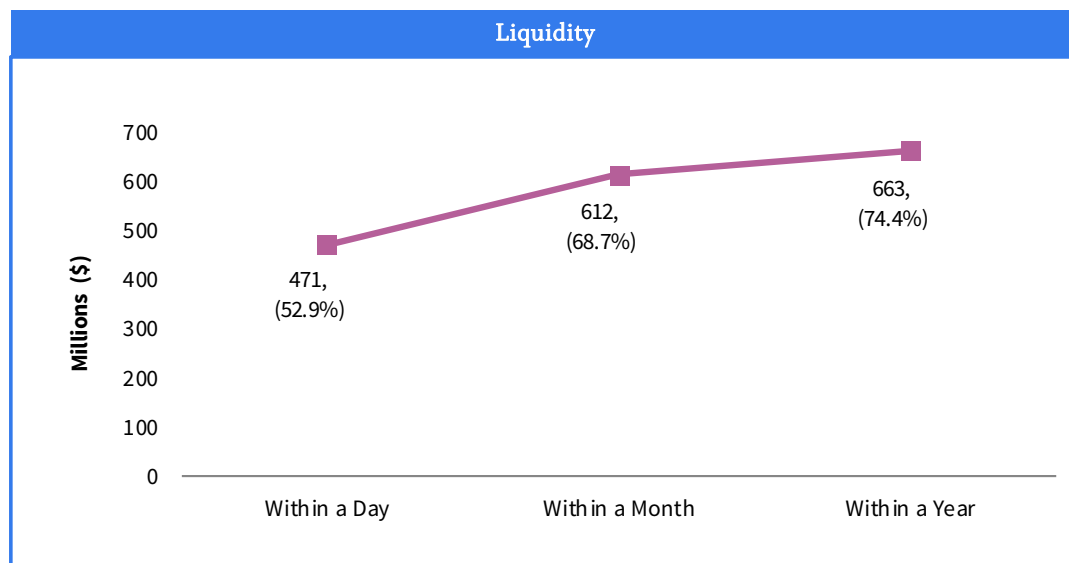
Performance Summary – Total Portfolio

	CY 2020 12/31/2019- 12/31/2020	FY2021 9/1/2020 12/31/20	Annualized Trailing 3 Years	Annualized Trailing 5 Years
Total Portfolio	13.4	13.5	8.7	9.5
Policy BM	7.7	12.6	6.3	8.0
Total Marketable Assets	14.7	15.6	7.8	8.9
Marketable Policy BM	12.3	14.2	7.4	8.4
Peer Mean ¹	12.4	--	8.5	9.2



Asset Allocation: Actual, Targets, and Allowable Ranges

	Actual Allocation	Near-Term Targets	Long-Term Targets	Allowable Ranges
Global Equities	51%	50%	45%	35-55%
Hedge Funds	6%	5%	5%	0-10%
Private Equity / Venture Capital	20%	20%	25%	10-35%
Real Assets	9%	10%	10%	5-15%
Bonds and Cash	14%	15%	15%	5-20%



Note: UH portfolio market value includes private investment values as of September 30, 2020.

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

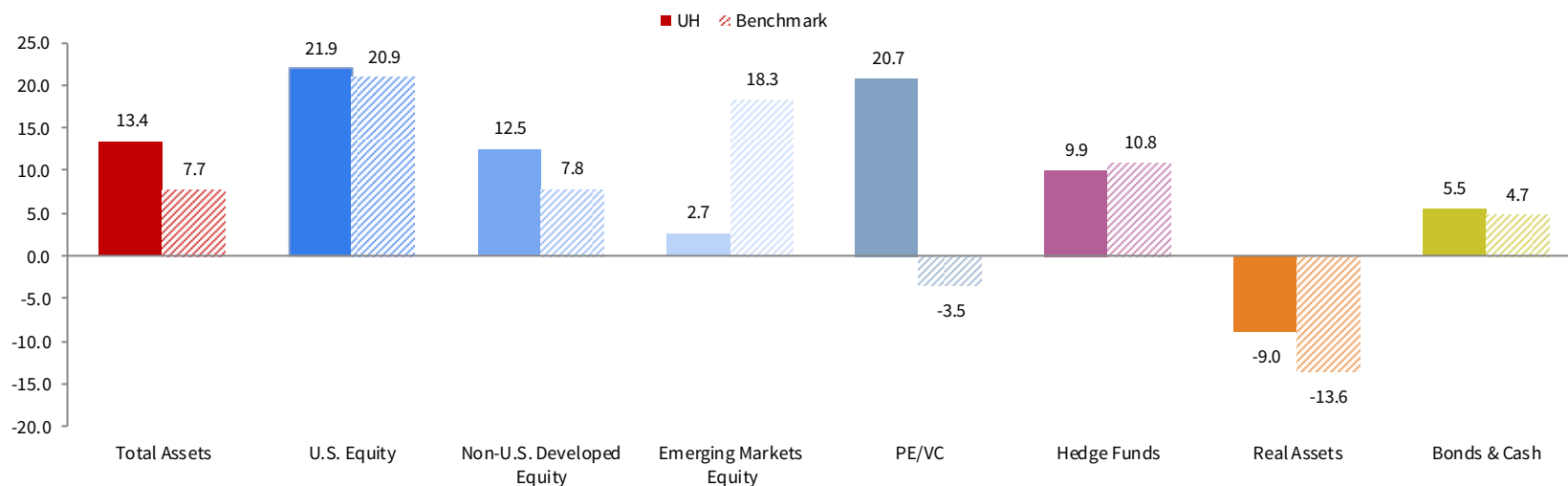
CYTD 2020 UH performance & attribution

UH's US and Developed Int'l Equity segments rebounded in the back half of 2020 on both an absolute and relative basis while hedge funds and fixed income protected value throughout the year; value exposure within the EM equity allocation hurt on a relative basis

UH Performance vs. Benchmarks (%) as of December 31, 2020

CYTD Performance

January 1, 2020 through December 31, 2020



	Absolute Return	Relative To Policy Benchmark
Calendar Year 2020 Result	+13.4%	+5.7%
Key Contributors	<ul style="list-style-type: none"> Non-US Developed Equity (William Blair) US Equity (Columbia) Private Investments 	<ul style="list-style-type: none"> Non-US Developed Equity (William Blair) US Equity (Columbia) Private Investments
Key Detractors	<ul style="list-style-type: none"> Real Assets (T. Rowe Price) Emerging Markets Equity (Oldfield, Edgbaston) 	<ul style="list-style-type: none"> Emerging Markets Equity (Oldfield, Edgbaston)

University of Houston cash flows by category

As of December 31, 2020

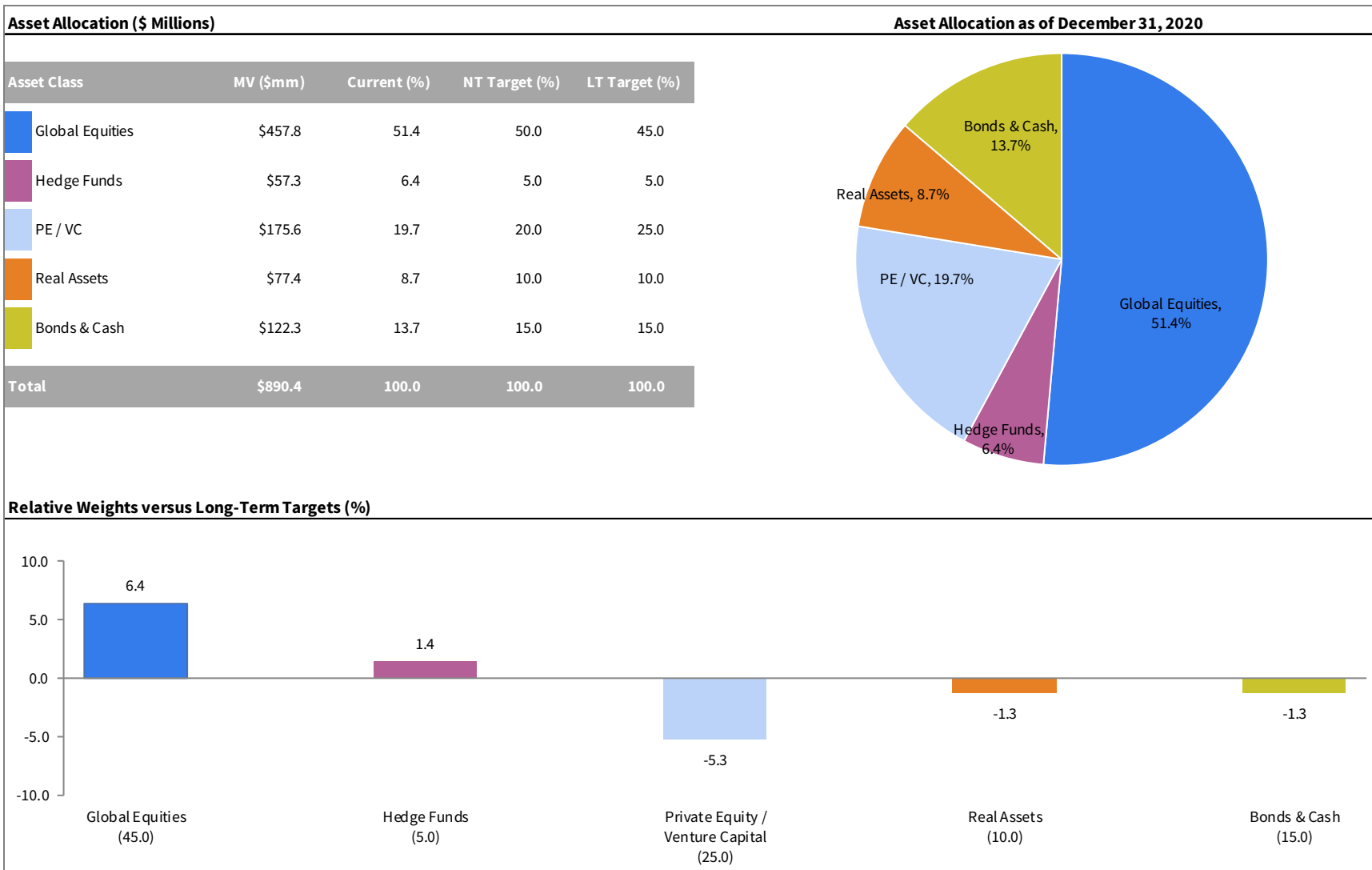
Period	Beginning Market Value	Net Withdrawals	Earned Income	Unrealized Gains/Loss	Management Fees	Ending Market Value
						(\$000)
2012	\$486,853	\$10,962	\$19,227	\$42,164	-\$3,798	\$555,408
2013	\$555,408	-\$42,572	\$35,492	\$40,892	-\$3,885	\$585,336
2014	\$585,336	\$9,127	\$44,772	-\$24,157	-\$4,495	\$610,582
2015	\$610,582	-\$24,614	\$49,433	-\$61,636	-\$3,678	\$570,086
2016	\$570,086	-\$16,937	\$24,526	\$7,660	-\$4,666	\$580,670
2017	\$580,670	\$7,757	\$34,341	\$61,495	-\$5,011	\$679,252
2018	\$679,252	\$26,657	\$32,659	-\$50,434	-\$4,834	\$683,300
2019	\$683,300	\$17,003	\$33,763	\$86,927	-\$6,372	\$814,623
2020	\$814,624	-\$37,486	\$39,829	\$81,757	-\$6,854	\$891,870

■ Since 2012 the Endowment has:

- ◆ added \$203 million in new gifts,
- ◆ generated \$314 million in realized/unrealized gains,
- ◆ distributed \$184 million to the beneficiary accounts, and
- ◆ paid \$44 million in portfolio expenses.

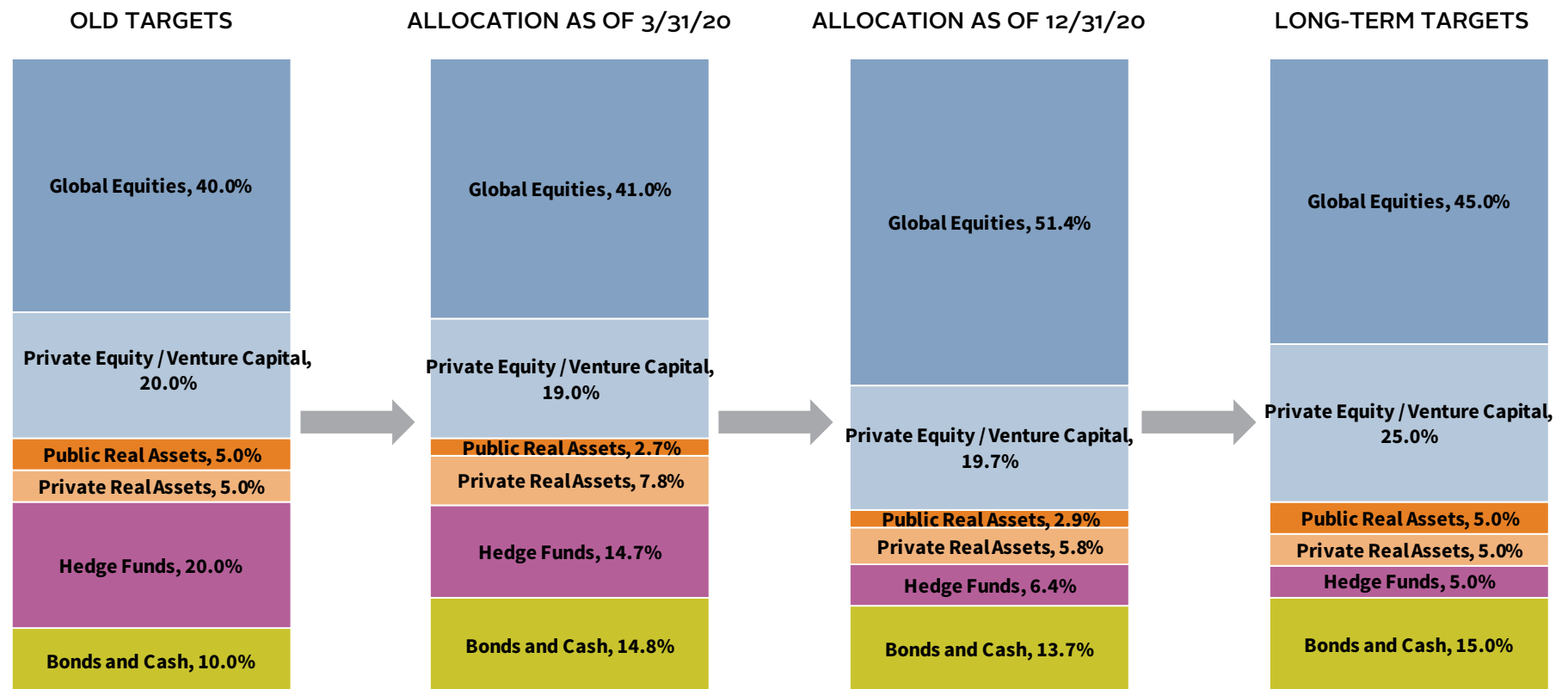
Asset allocation summary

We continue to move the UH portfolio closer to long-term targets; public equities above long-term targets to offset the current underweight to private equity



Asset allocation update

- Trades made throughout 2020 moved us closer to the long-term targets approved at the February 2020 meeting. Global equity overweights offset the underweight to private equity as the program builds towards target.

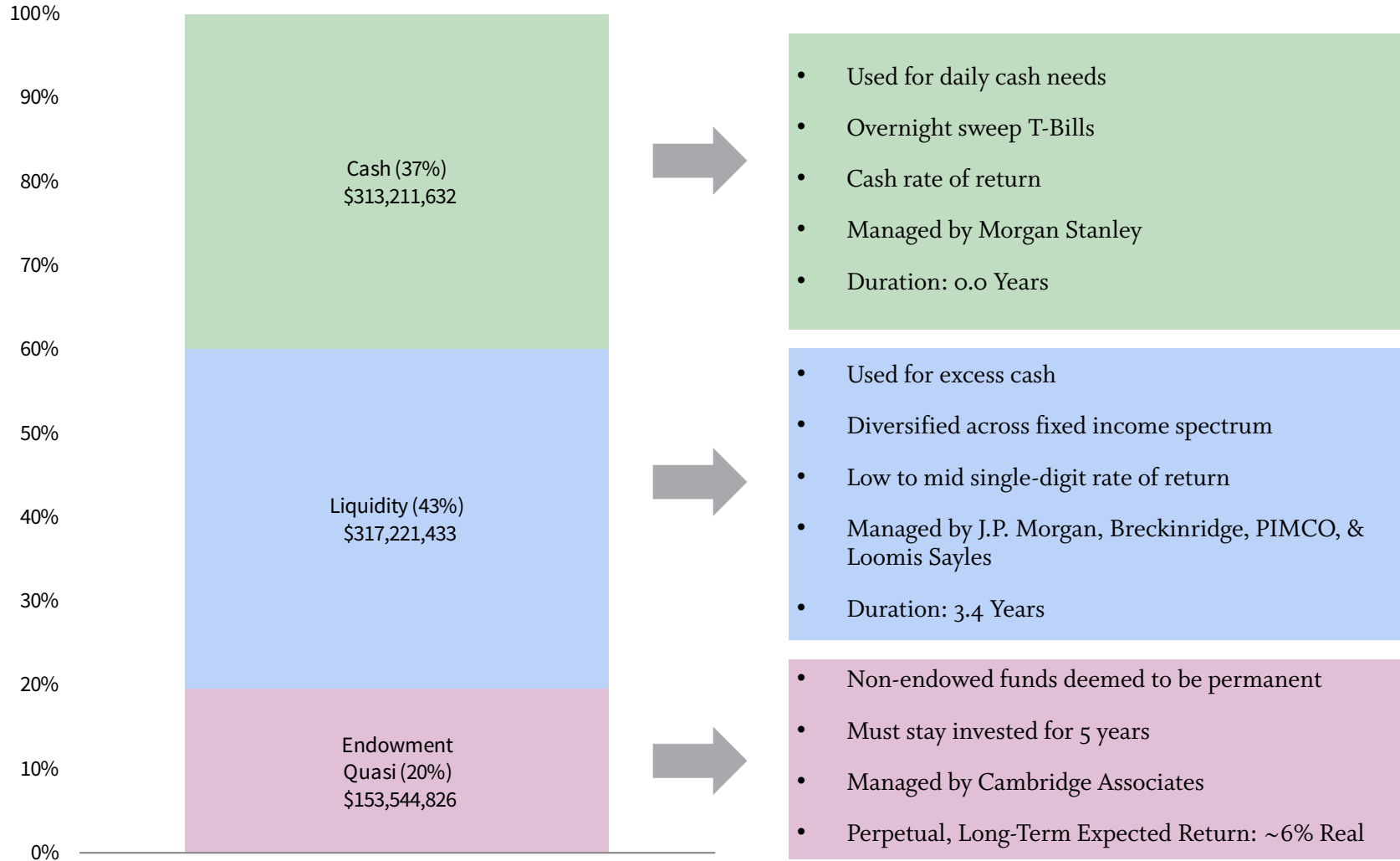


Non-endowed fund composition

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

UH NON-ENDOWED ASSETS

As of December 31, 2020



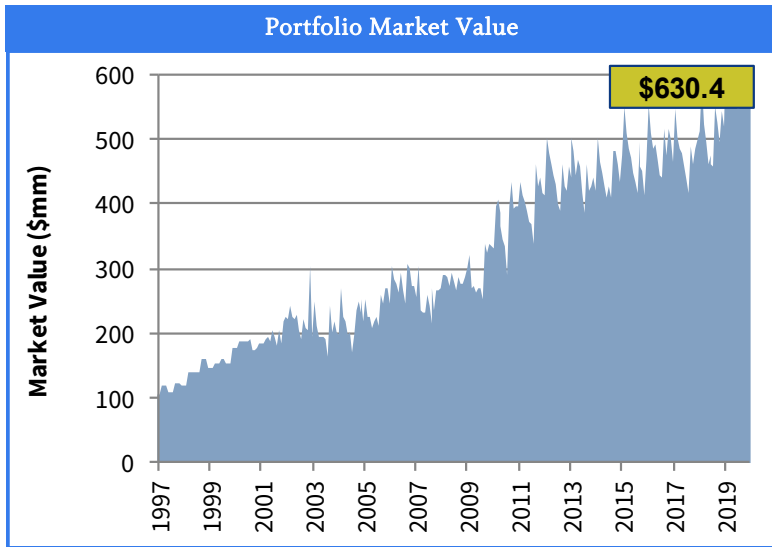
- Used for daily cash needs
- Overnight sweep T-Bills
- Cash rate of return
- Managed by Morgan Stanley
- Duration: 0.0 Years

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

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

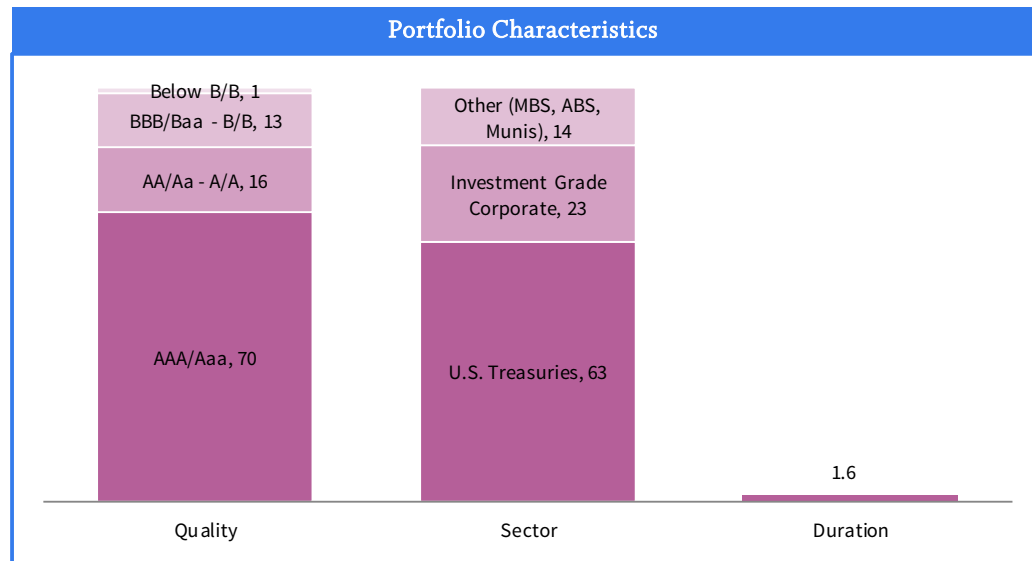
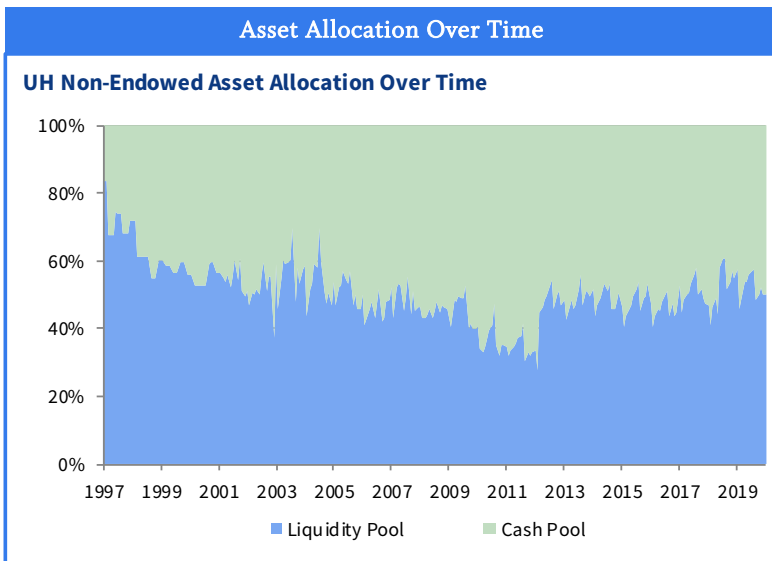
UH non-endowed portfolio dashboard

As of December 31, 2020



Performance Summary – Total Non-Endowed Portfolio

	CY 2020 12/31/19- 12/31/2020	FY 2021 9/1/2020 12/31/20	Annualized Trailing 3 Years	Annualized Trailing 5 Years
Total Non-Endowed	3.7	0.8	3.0	2.0
Non-Endowed Policy Benchmark	2.6	0.1	2.6	1.9
Total Cash Pool	0.5	0.5	1.5	1.0
BofA ML 91-Day T Bills	0.7	0.0	1.6	1.2
Total Liquidity Pool	6.5	1.1	4.2	2.9
BofA ML 1-5 Year Gov/Credit AA+	4.3	0.1	3.4	2.4
BofA ML 1-5 Year Gov/Corp Index	4.6	0.4	3.7	2.8



B. PRIVATE INVESTMENTS UPDATE



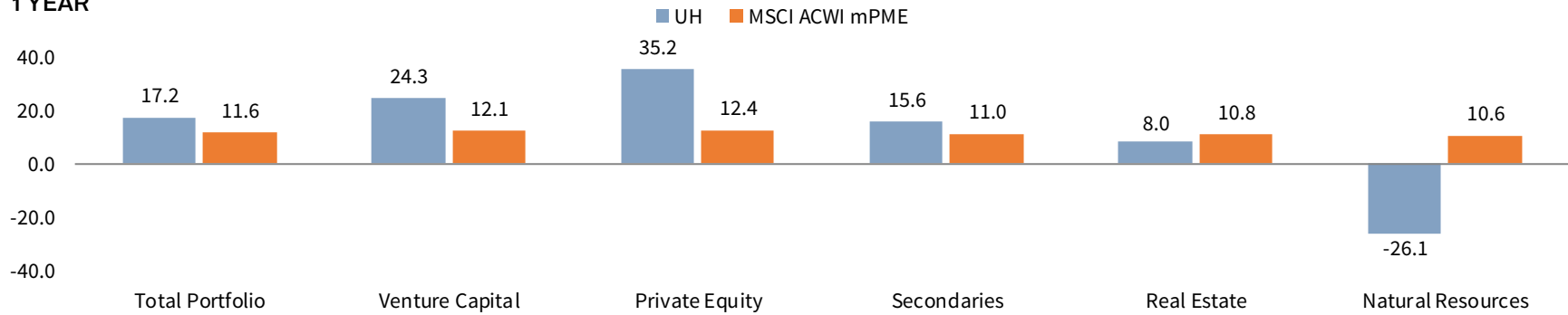
Current Private Investments Snapshot

The University of Houston's Private Investments (PI) program has produced an attractive 14.7% net IRR since inception.

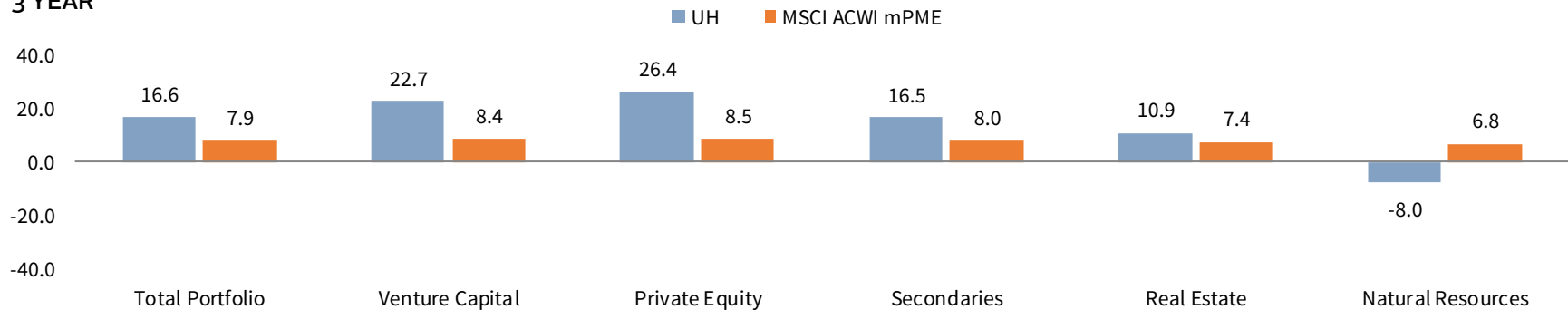
Private Investments Exposure in \$ millions (As of Q3 2020 Plus Recent Commitments)					
	NAV	Unfunded	Distributions*	NAV as a Percent of Total Endowment (9/30/20)	NAV as a Percent of Total Endowment (12/31/20)**
Venture Capital	62.3	37.0	28.4	7.4%	7.1%
Private Equity	92.7	57.9	52.2	11.0%	10.3%
Secondaries	19.5	25.5	12.8	2.3%	2.2%
Real Estate	28.3	30.0	29.4	3.4%	3.1%
Natural Resources	22.3	25.7	41.5	2.6%	2.7%
Total	225.0	176.0	164.2	26.8%	25.5%

UH Private Investment Performance (net IRR) vs. Public Market Equivalents (as of 9/30/20)

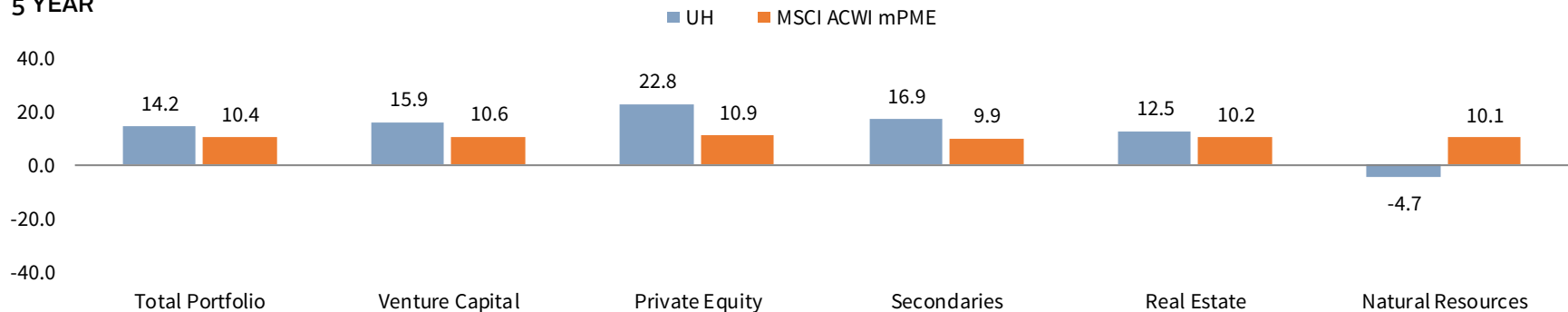
1 YEAR



3 YEAR



5 YEAR

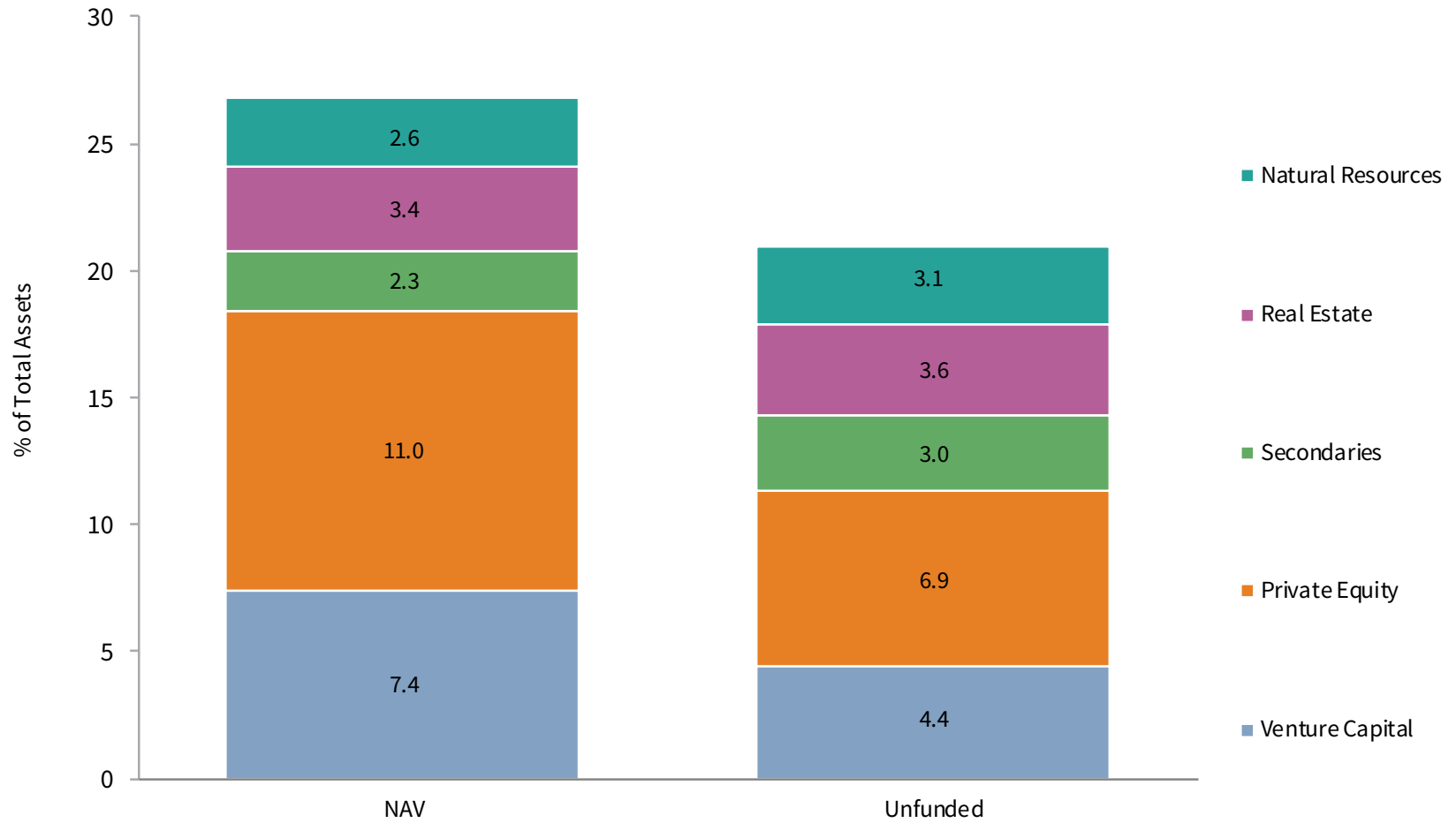


Source: Cambridge Associates preliminary performance report for the University of Houston, as of Q3 2020.

Note: Internal rate of return includes the cash-on-cash return net of fees, expenses, and carried interest, as well as the net asset value of University of Houston System's interest in each partnership. CA's modified Public Market Equivalent (mPME) is an in-house methodology that provides a private to public comparison framework that replicates the private investment reference fund under public market conditions (per a given index). Under mPME, actual private contributions are invested in the given public market index and distributions are calculated in proportion as in the private investment reference fund within each asset class, with the corresponding NAV a function of the mPME cash flows.

Private Investments Exposure by Strategy

As of September 30, 2020



II. APPENDIX



Comparative asset allocation

Colleges & Universities, \$500m - \$1.0bn with Less Than 20% Endowment Reliance; as of September 30, 2020

Institution	Asset Allocation (%)										AACRs (%)		
	U.S. Equity	Non-U.S. Developed Equity	Emerging Markets Equity	PE & VC	Hedge Funds	Distressed Securities	RA & ILB	Bonds	Cash	Other	3 Years	5 Years	10 Years
1	14.3	11.5	6.1	27.4	23.3	4.1	4.3	---	9.0	---	8.6	8.8	8.3
2	32.4	21.6	5.0	13.0	7.3	0.1	9.5	7.0	3.9	---	5.0	6.0	5.9
3	14.9	11.3	10.1	15.6	7.2	3.3	25.8	12.4	-0.6	---	3.9	6.3	6.5
4	26.2	18.9	5.9	22.8	6.0	2.0	10.5	4.1	3.6	---	5.3	6.6	6.5
5	23.3	22.5	7.8	12.7	18.3	---	3.5	11.1	0.8	0.1	5.9	7.2	---
6	23.9	13.9	6.7	13.8	15.7	4.8	13.2	4.3	3.5	---	3.4	5.1	6.0
7	27.4	12.8	1.1	10.9	17.0	8.4	8.4	13.3	0.1	0.5	4.7	7.1	7.0
8	29.4	19.9	5.6	17.2	8.5	2.4	6.0	10.4	0.5	---	4.7	6.8	6.4
9	24.6	14.2	4.1	21.2	26.4	5.1	1.4	---	3.2	---	7.7	8.5	7.5
11	22.7	7.7	4.6	18.5	29.0	4.7	2.0	6.1	3.4	1.3	6.1	6.7	6.6
University of Houston System	22.8	15.9	4.4	22.2	8.8	6.1	5.9	5.5	8.5	---	6.3	7.4	6.4
Key Peers Mean <i>n=10</i>	21.6	14.7	5.2	15.5	13.0	3.0	8.3	6.3	2.4	0.1	5.5	6.9	6.8
C&U Mean <i>n=132</i> <i>n=41</i>	24.0	13.8	6.9	16.0	15.8	3.0	7.3	8.8	3.6	0.8	6.0	7.5	7.2
Institutional Mean <i>n=406</i>	25.2	14.5	7.0	12.3	16.2	2.6	6.0	11.2	4.3	0.6	5.6	7.3	6.9
											<i>n=399</i>	<i>n=395</i>	<i>n=368</i>

Colleges & Universities \$500M - \$1.0B With Less Than 20% Endowment Reliance

American University	Pepperdine University	Villanova University
Clemson University Foundation	Rensselaer Polytechnic Institute	William & Mary Foundation
Florida State University Foundation	Santa Clara University	Yeshiva University
Oberlin College	University of Tennessee	

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



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UNIVERSITY OF HOUSTON SYSTEM
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management Committee
ITEM: Annual review and approval of the UH System Endowment Fund Statement of Investment Objectives and Policies

DATE PREVIOUSLY SUBMITTED: February 27, 2020

SUMMARY:

In accordance with the UH System Endowment Fund Statement of Investment Objectives and Policies, the Endowment Management Committee shall review this policy at least once a year. There are no recommended changes to the policy during this review period.

SUPPORTING DOCUMENTATION: UH System Endowment Fund Statement of Investment Objectives and Policies – redlined copy

FISCAL NOTE: None

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

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett

2/4/2021

DATE



CHANCELLOR Renu Khator

2/22/2021

DATE

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

February 25~~7~~, 2020~~1~~

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 are likely 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 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 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. It is understood that such absolute return assets will invariably return less than equity assets, given rational markets 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 real estate and venture capital, as well as other investments 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 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

Asset Class	LT Target	Range	Benchmark
Return Enhancement Assets	70%	60 to 80%	
Global Equities	45%	35 to 55%	MSCI ACWI
<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>	
Private Equity/Venture Capital ¹	25%	10 to 35%	Russell 3000
<i>Private Equity</i>		<i>5 to 20%</i>	
<i>Venture Capital</i>		<i>5 to 15%</i>	
Real Assets ²	10%	5 to 15%	
<i>Marketable Real Assets</i>		<i>2 to 8%</i>	<i>25% Barclays US TIPS / 25% MSCI World Natural Resources / 25% MSCI U.S. REIT / 25% Bloomberg Commodity TR</i>
<i>Private Real Assets</i>		<i>5 to 12%</i>	<i>70% S&P Natural Resource Sector / 30% MSCI U.S. REIT</i>
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

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, 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 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
BOARD OF REGENTS AGENDA**

COMMITTEE: Endowment Management Committee

ITEM: Annual review and approval of the UH System Investment Policy for Non-Endowed Funds

DATE PREVIOUSLY SUBMITTED: February 27, 2020

SUMMARY:

In accordance with Section IX of the UH System Investment Policy for Non-Endowed Funds, the Endowment Management Committee shall review this policy at least once a year. There are no recommended changes to the policy during this review period.

SUPPORTING DOCUMENTATION: UH System Investment Policy for Non-Endowed Funds – redlined copy

FISCAL NOTE: None

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

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR Raymond S. Bartlett

2/4/2021

DATE



CHANCELLOR Renu Khator

2/22/2021

DATE

UNIVERSITY OF HOUSTON SYSTEM
INVESTMENT POLICY FOR NON-ENDOWED FUNDS

Approved by the Board of Regents

February 25~~7~~, 2021~~0~~

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 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	45%	30%% to 100%
Liquidity	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	50%	40-100%
Core Fixed Income	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 a 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
BOARD OF REGENTS AGENDA

COMMITTEE: Endowment Management Committee

ITEM: Approval is requested for the FY2021 University Advancement Endowment Assessment Rate

DATE PREVIOUSLY SUBMITTED: February 27, 2020

SUMMARY:

Approval is requested to assess System endowments at a rate of 1.3% for the fiscal year ending 2021 (spendable in FY2022) 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 \$7.3 million

RECOMMENDATION/
ACTION REQUESTED: Administration recommends approval of this item

COMPONENT: University of Houston System



SENIOR VICE CHANCELLOR

Raymond S. Bartlett

2/4/2021

DATE



CHANCELLOR

Renu Khator

2/22/2021

DATE