

**TEXAS SOUTHERN UNIVERSITY  
QUARTERLY INVESTMENT  
PERFORMANCE REPORT  
PERIOD ENDING  
DECEMBER 31, 2015**

**Gray & Company**  
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## OVERVIEW

### PORTFOLIO EVALUATION

- ♦ The endowment value was \$46.81 million as of December 31, 2015.
- ♦ The endowment's return was 4.83% for the quarter.

### INVESTMENT POLICY AND OBJECTIVES

- ♦ Expected total return of 9% per annum over a 3-5 year period.
- ♦ The foremost objective is the safety and preservation of capital in the overall portfolio.
- ♦ Maintenance of sufficient liquidity to meet operating requirements that may be reasonably anticipated
- ♦ Maximization of yield on the portfolio throughout budgetary and economic cycles taking into account the investment risk constraints and liquidity needs.

<u>Policy Asset Mix:</u>	<u>Target</u>	<u>Range</u>
Equity	70.0%	40-80%
Fixed Income	30.0%	20-60%
Cash	0.0%	0-25%

### PLAN RECONCILIATION

	<u>Current Quarter</u>
<u>Beginning Value</u>	\$ 44,745,983
Receipts	330
Intrafund Transfers	
Disbursements	(96,680)
Net Cash Flow	(96,349)
Investment Performance	
Income	242,651
Asset Value Change	1,919,892
Gross Performance	2,162,543
<u>Ending Value</u>	<u>\$ 46,812,177</u>

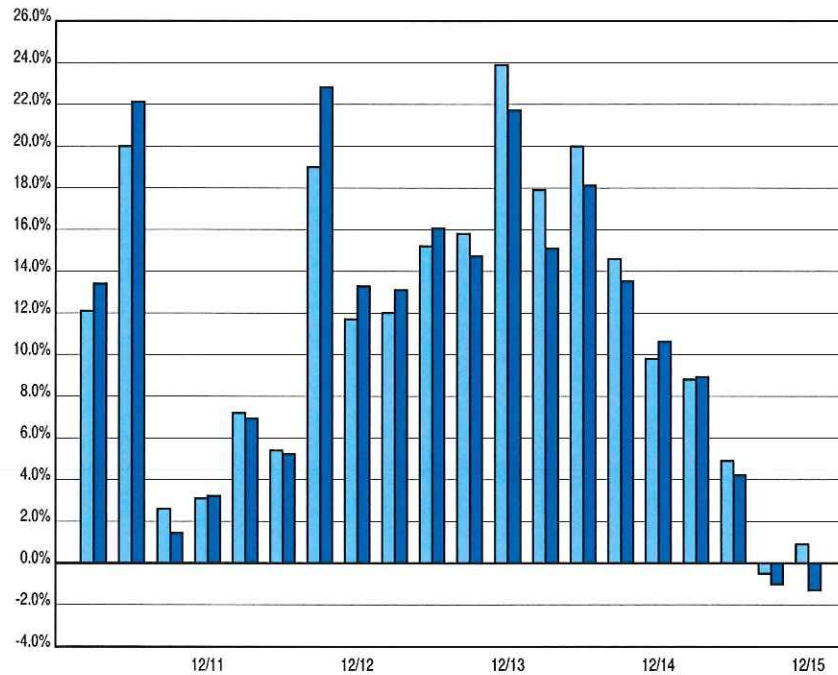
### ACTION

**Texas Southern University  
Executive Summary Table  
Periods Ending December 31, 2015**

Name	Value \$(000)	% of Fund	Periods Ending 12/31/15							Since Inception	
			Cur Qtr	1 Year	2 Yrs	3 Yrs	5 Yrs	7 Yrs	10 Yrs	Ret	Date
<b>Total Fund</b>	<b>46,812</b>	<b>100.0</b>	4.83	0.87	5.26	11.13	9.60	11.67	5.98	7.83	9/30/94
Net of Fee			4.69	0.36	4.59	10.43	8.92	10.99		6.29	12/31/07
Policy Benchmark			3.86	-1.32	4.48	9.94	9.21	11.17	6.39	8.77	9/30/94
ARA 9.0% MAR Benchmark			5.31	1.13	5.64	11.48	9.55	11.44	6.05	7.99	9/30/94
<b>Total Equity</b>	<b>33,351</b>	<b>71.2</b>	7.05	0.86	6.21	15.82	12.81	15.96	6.76	8.18	9/30/94
Net of Fee			6.88	0.20	5.40	14.92	11.93	15.04		7.62	12/31/07
Policy Index			5.76	-2.30	4.90	13.55	11.47	13.79	6.58		9/30/94
<b>Davis Advisors</b>	<b>12,678</b>	<b>27.1</b>	7.73	2.67	6.56	18.65	13.76	17.29		7.25	3/31/07
Net of Fee			7.56	2.33	5.82	17.71	12.75	16.23		6.39	3/31/07
Russell 3000			6.27	0.48	6.34	14.74	12.18	15.04		6.50	3/31/07
<b>Markston International</b>	<b>20,673</b>	<b>44.2</b>	6.65	-0.23	5.96	14.13	12.23	15.17		7.31	3/31/07
Net of Fee			6.47	-1.08	4.96	13.16	11.35	14.28		6.46	3/31/07
Russell 3000 Value			5.41	-4.13	3.94	12.76	10.98	12.94		4.42	3/31/07
<b>Fixed Income Composite</b>	<b>12,424</b>	<b>26.5</b>	-0.33	1.06	3.35	1.76	3.55	4.94	4.93	4.67	6/30/05
Net of Fee			-0.40	0.91	3.20	1.56	3.30	4.67	4.62	4.39	6/30/05
<b>Smith Graham</b>	<b>12,424</b>	<b>26.5</b>	-0.33	1.06	3.35	1.76	3.55	4.94	4.93	4.67	6/30/05
Net of Fee			-0.40	0.91	3.12	1.51	3.27	4.65	4.61	4.37	6/30/05
Barclays U.S. Aggregate			-0.57	0.55	3.22	1.44	3.25	4.09	4.52	4.29	6/30/05
<b>Cash &amp; Other Composite</b>	<b>1,037</b>	<b>2.2</b>	0.00	0.01	0.01	0.01	0.01	0.07	1.24	1.86	12/31/99
Net of Fee			0.00	0.01	0.01	0.01	0.01	0.07	1.24	1.86	12/31/99
<b>Cash Account</b>	<b>1,037</b>	<b>2.2</b>	0.00	0.01	0.01	0.01	0.01	0.07	1.24	1.86	12/31/99
Net of Fee			0.00	0.01	0.01	0.01	0.01	0.07	1.24	1.86	12/31/99
Citigroup 3-month T-Bill			0.01	0.03	0.03	0.04	0.05	0.08	1.17	1.79	12/31/99

# Texas Southern University December 31, 2015

Total Fund  
Performance Consistency  
1-Yr Rolling Period

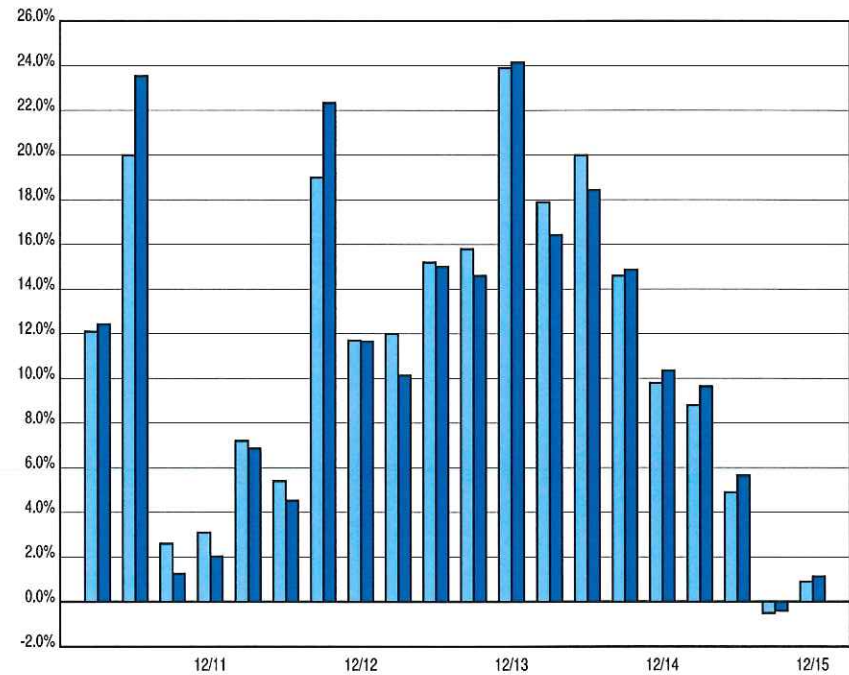


20 Quarters in 6.00 Years from 1/1/2011 to 12/31/2015

■ Total Return

■ Policy Benchmark

Total Fund  
Performance Consistency  
1-Yr Rolling Period



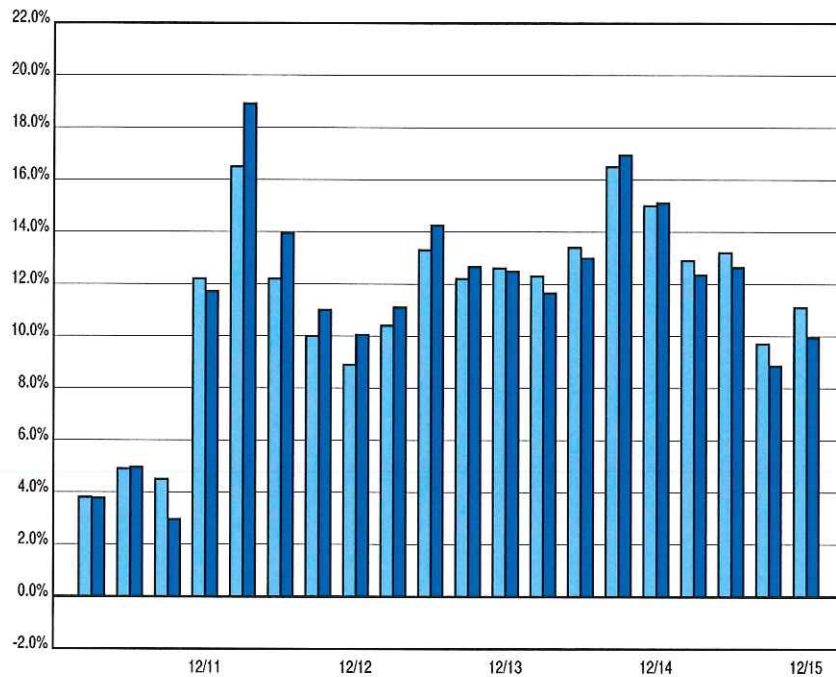
20 Quarters in 6.00 Years from 1/1/2011 to 12/31/2015

■ Total Return

■ 9.0% Market Proxy

# Texas Southern University December 31, 2015

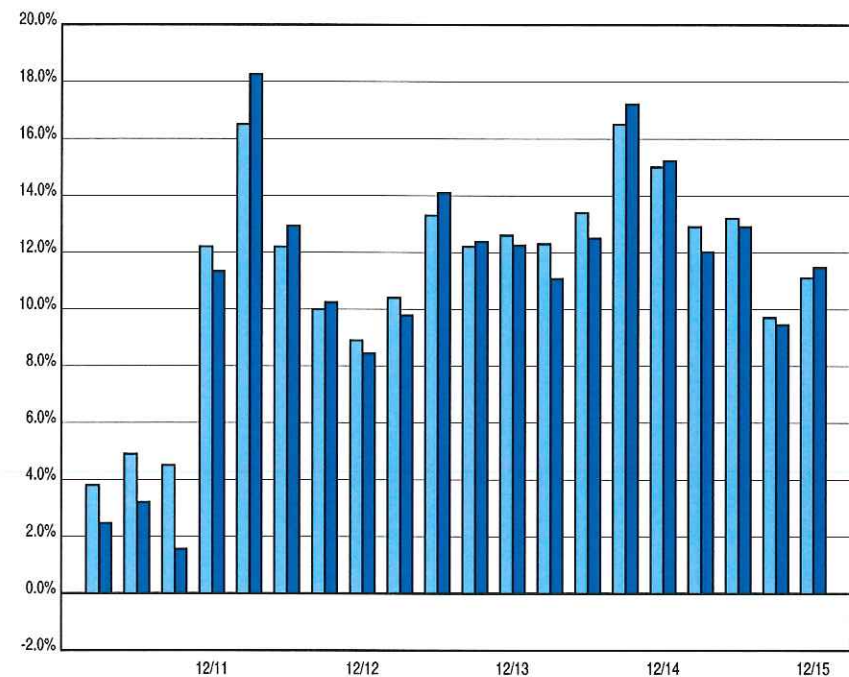
Total Fund  
Performance Consistency  
3-Yr Rolling Periods



20 Quarters in 8.00 Years from 1/1/2008 to 12/31/2015

■ Total Return      ■ Policy Benchmark

Total Fund  
Performance Consistency  
3-Yr Rolling Periods



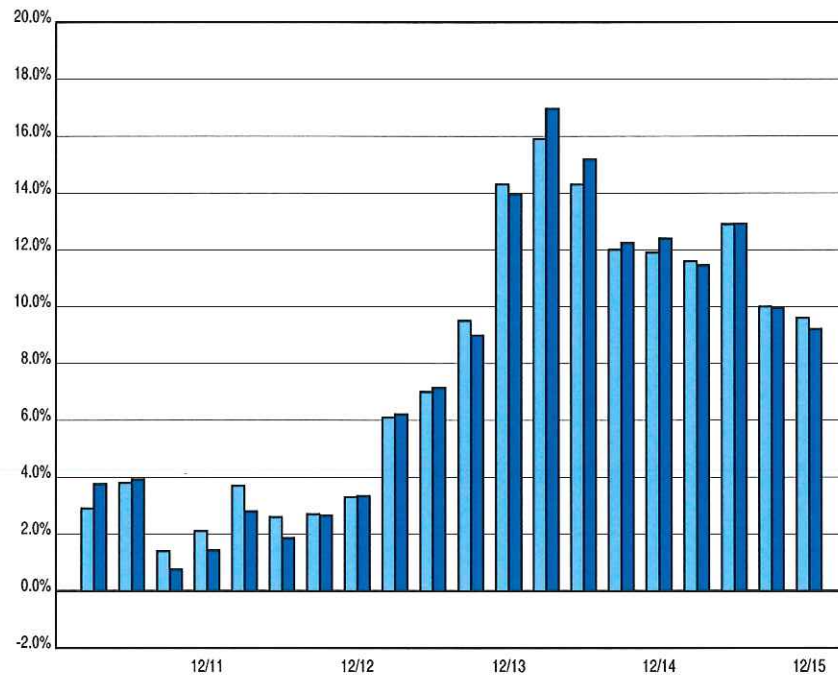
20 Quarters in 8.00 Years from 1/1/2008 to 12/31/2015

■ Total Return      ■ 9.0% Market Proxy



# Texas Southern University December 31, 2015

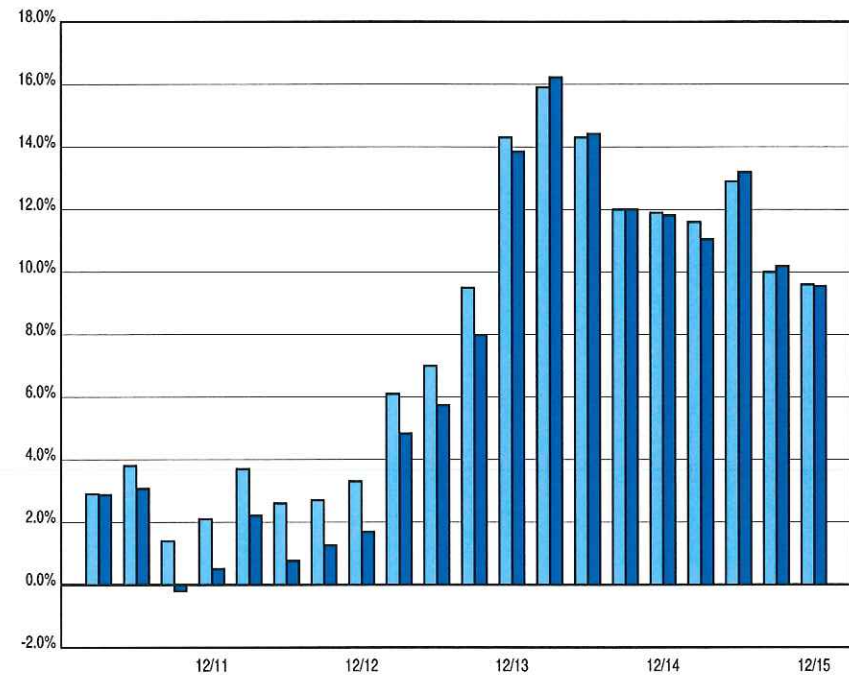
Total Fund  
Performance Consistency  
5-Yr Rolling Periods



20 Quarters in 10.00 Years from 1/1/2006 to 12/31/2015

■ Total Return      ■ Policy Benchmark

Total Fund  
Performance Consistency  
5-Yr Rolling Periods



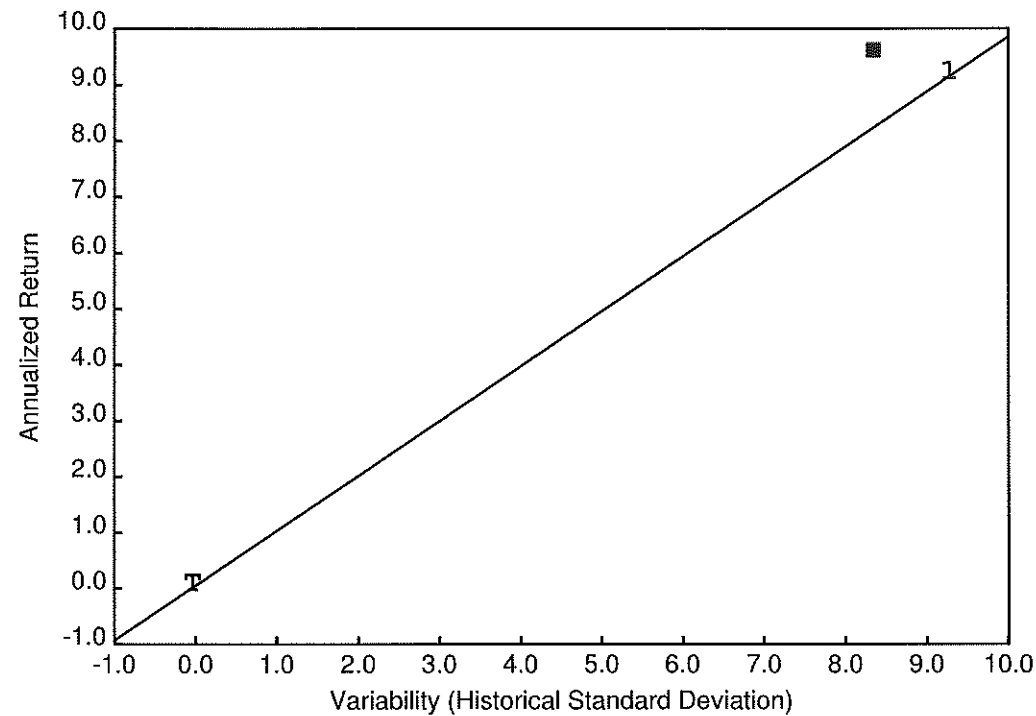
20 Quarters in 10.00 Years from 1/1/2006 to 12/31/2015

■ Total Return      ■ 9.0% Market Proxy

# Texas Southern University

## Quarterly Total Return Market Line Analysis

Periods from 12/10 to 12/15

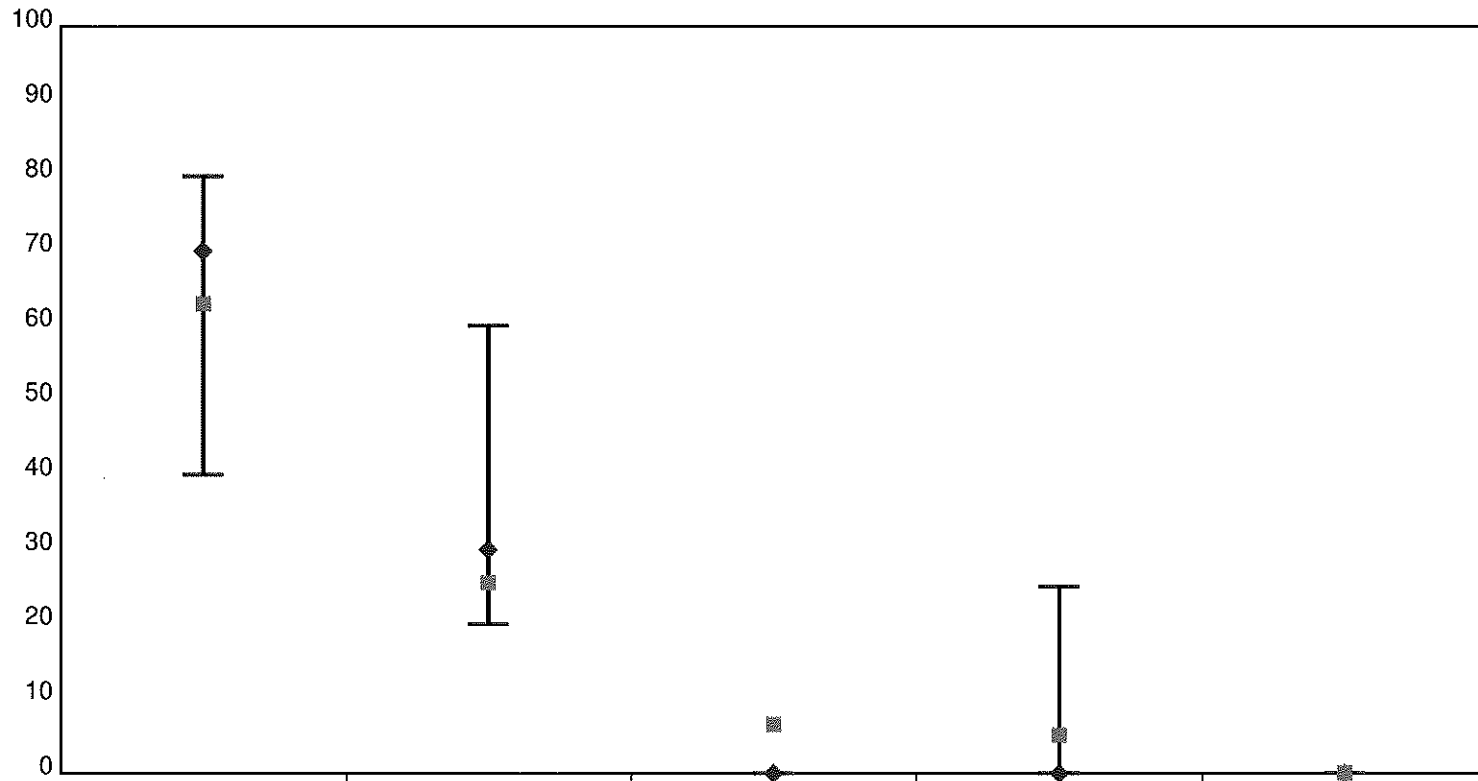


	Annualized Return	Variability	Reward	Sharpe Ratio
■ Total Fund	9.60	8.43	9.53	1.13
1 Policy Benchmark	9.21	9.34	9.14	0.98
T 91-Day Treasury Bill	0.08	0.03	0.00	0.00

Sharpe Ratio = Reward / Variability



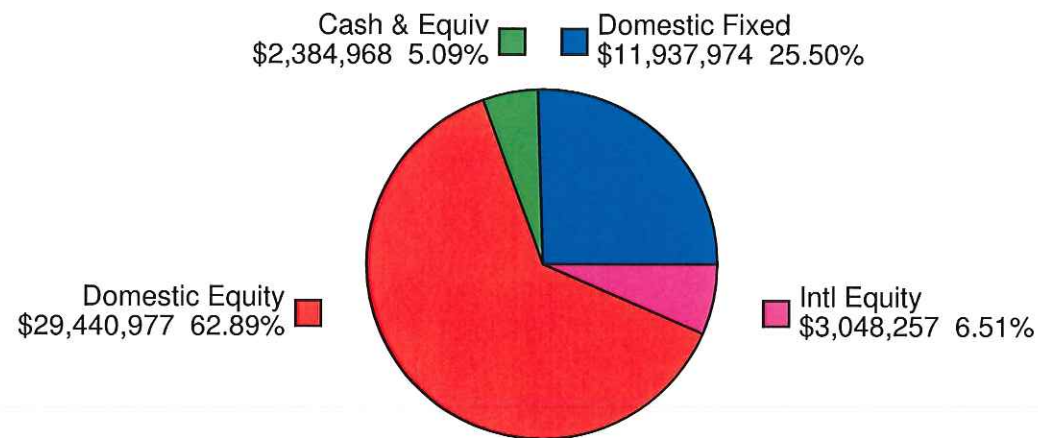
Texas Southern University  
Asset Allocation vs Policy Graph  
Total Fund  
As of December 31, 2015



Legend	Domestic Equities	Domestic Fixed	International Equities	Cash	Other
◆ Policy	70.0	30.0	0.0	0.0	0.0
— Min	40.0	20.0	0.0	0.0	0.0
— Max	80.0	60.0	0.0	25.0	0.0
■ Actual	62.9	25.5	6.5	5.1	0.0

# Texas Southern University Asset Allocation Total Fund

December 31, 2015      \$46,812,177



# Texas Southern University

## December 31, 2015

Performance Summary Table  
Periods Ending 12/31/15

Manager	1 Qtr	1 Year	2 Yrs	3 Yrs	5 Yrs	7 Yrs	
Davis Advisors							
Total Return	7.73	2.67	6.56	18.65	13.76	17.29	
Total Return (Net of Fees)	7.56	2.33	5.82	17.71	12.75	16.23	
Russell 3000	6.27	0.48	6.34	14.74	12.18	15.04	
Variance	1.46	2.19	0.22	3.91	1.58	2.25	

### DAVIS ADVISORS All Cap Equity Separately Managed Account

#### OBJECTIVE

Return that equals or exceeds the Russell 3000 index. Return in top half of comparable manager universe.

#### STRATEGY

Davis believes that market out performance over the long-term is achieved by investing in durable companies with expanding earnings at value prices and holding them for the long term. They believe that managing risk is the key to delivering superior long-term investment results.

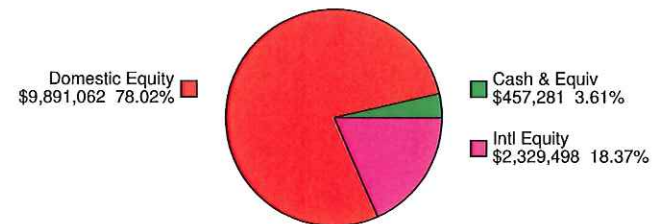
Davis sets out to purchase durable businesses when they are trading at a discount to their intrinsic worth in order to establish a margin of safety. They believe doing so reduces fundamental risk, which they define as the likelihood of experiencing a substantial and permanent loss on a given investment.

#### Fee Schedule

First \$30M is 0.70%  
Next \$20M is 0.65%  
Thereafter is 0.55%

### Asset Allocation Davis Advisors

December 31, 2015      \$12,677,841



### CONCLUSIONS/RECOMMENDATIONS

Davis Advisors out performed the Russell 3000 Index by 146 bps during the 4th Quarter 2015.

Over the longer 7-yr time period, Davis Advisors out performed the Russell 3000 Index.

# Texas Southern University

## December 31, 2015

Performance Summary Table  
Periods Ending 12/31/15

Manager	1 Qtr	1 Year	2 Yrs	3 Yrs	5 Yrs	7 Yrs	
Markston International							
Total Return	6.65	-0.23	5.96	14.13	12.23	15.17	
Total Return (Net of Fees)	6.47	-1.08	4.96	13.16	11.35	14.28	
Russell 3000 Value	5.41	-4.13	3.94	12.76	10.98	12.94	
Variance	1.23	3.90	2.02	1.37	1.25	2.23	

### MARKSTON INTERNATIONAL

#### All Cap Equity

#### Separately Managed Account

#### OBJECTIVE

Return that equals or exceeds the Russell 3000 index. Return in top half of comparable manager universe.

#### STRATEGY

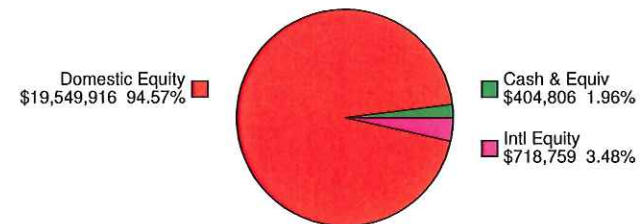
Markston's strategy is to look for attractive investments using a "value with a catalyst" approach. Six events are screened which we believe can create superior risk-adjusted returns when they come together to create a collective catalyst. Those events are 1) insider buying, 2) stock repurchase by the company, 3) insider accumulation of shares, 4) a sale or a spin-off of a division, 5) finding companies which operate in industries which are consolidating, and finally 6) companies that have net operating losses which can off-set future tax obligations. When attractive candidates are found that qualify, additional research is done and if the candidate continues to appear to look attractive, then it will be added to the portfolio.

#### Fee Schedule

First \$30M is 0.70%  
Next \$23M is 0.55%  
Balance is 0.50%

### Asset Allocation Markston International

December 31, 2015      \$20,673,481



### CONCLUSIONS/RECOMMENDATIONS

Markston out performed the Russell 3000 Value by 123 bps during the 4th Quarter 2015.

Over the longer 7-yr time period, Markston has out performed the Russell 3000 Index.

# Texas Southern University December 31, 2015

Performance Summary Table  
Periods Ending 12/31/15

Manager	1 Qtr	1 Year	2 Yrs	3 Yrs	5 Yrs	7 Yrs	
Smith Graham							
Total Return	-0.33	1.06	3.35	1.76	3.55	4.94	
Total Return (Net of Fees)	-0.40	0.91	3.12	1.51	3.27	4.65	
Barclays U.S. Aggregate	-0.57	0.55	3.22	1.44	3.25	4.09	
Variance	0.24	0.51	0.13	0.32	0.30	0.84	

## SMITH GRAHAM Barclays U.S Aggregate Separately Managed Account

### OBJECTIVE

Return that equals or exceeds the Barclays Aggregate Bond Index.  
Return in top half of comparable manager universe.

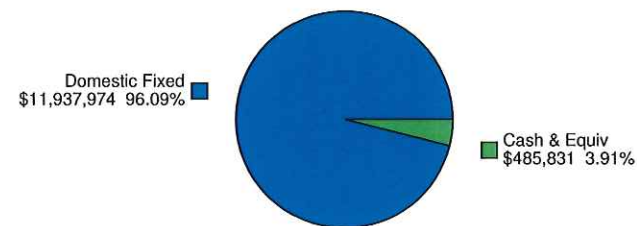
### STRATEGY

Fully invested bond portfolio. Sector positioning is the most important strategy employed. Arbitraging sectors and issues are commonly employed. Investments are confined to government backed, agency, and mortgage-backed bonds.

### Fee Schedule

First \$100M is 0.30%  
Next \$100M is 0.20%  
Greater than \$200M is negotiable

Asset Allocation  
Smith Graham  
December 31, 2015      \$12,423,806



### CONCLUSIONS/RECOMMENDATIONS

Smith Graham out performed the Barclays U.S. Aggregate Index by 24 bps, during the 4th Quarter 2015.

Over the longer 7-yr time period, Smith Graham has out performed the Barclays U.S. Aggregate Index.

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## EXPLANATIONS OF BENCHMARKS

### APPENDIX A

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#### TARGET ASSET MIX

<u>Policy asset mix:</u>	<u>Ranges:</u>
Equity	40-80%
Fixed Income	20-60%
Cash	0-25%

Indexes used to calculate target and actual benchmarks:

Fixed Income:	Barclays Aggregate
Large Cap. Equity:	Russell 3000
Cash:	Salomon Smith Barney 3-month T-Bill

#### COMPOSITE MEDIAN MANAGER

A composite of median manager returns for each asset class weighted by the Target Asset Mix.

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## DEFINITION OF INDICES

### APPENDIX B

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The **Target Benchmark** is 60% S&P 500, 35% LB Aggregate, and 5% SB 3Mo Tbill. Prior to July 2000, benchmark was a blend of 60% S&P 500, 30% LB Govt/Corp, and 10% SB 3Mo Tbill. Prior to December 1999, benchmark was a blend of 60% S&P 500, 30% SB Govt/Corp, and 10% SB 3Mo Tbill.

The **Standard & Poor's (S&P) 500 Index** is a capitalization-weighted index 500 of the largest public companies and is widely accepted as the overall market proxy. It consists of 400 industrial issues, 40 utility stocks, 20 transportation stocks and 40 financial institution issues.

The **Russell 1000 Growth Index** is composed of those stocks in the Russell 1000 Index (the 1,000 largest US companies by market capitalization, the smallest of which has about \$370 million in market capitalization) with greater than average growth orientation. The Russell Value Index represents the universe of stocks from which most growth style money managers typically select.

The **Barclays Aggregate Bond Index** is comprised of the Lehman Government/Corporate Bond Index plus the Lehman Mortgage Index. The Aggregate contains all publicly issued, fixed-rate, non-convertible bonds which have a maturity of more than one year and an outstanding par value of at least \$100 million for US Government issues and \$50 million for all others. The index includes debt issued by the US Government and agencies thereof, domestic corporate issues and foreign dollar-denominated issues. All issues are rate Baa/BBB or better.

The **Barclays Government/Corporate Bond Index** contains all publicly issued, fixed rate, non-convertible, bonds which have a maturity of more than one year and an outstanding par value of at least \$100 million for US Government issues and \$50 Million for all others. The index includes debt issued by the US Government and agencies thereof, domestic corporate issues and foreign dollar-denominated issues. All issues are rate Baa/BBB or better.

The **Salomon Brothers 3 Month TBill** provide a measure of riskless return.

The **US Balanced Universe** consists of balanced composites which utilize both equity and fixed income securities within a relatively stable asset allocation structure. These are balanced, separately managed, fully discretionary, tax-free portfolios whose asset allocation is not actively managed.

The **Large Cap Equity Universe** is composed of domestic largecap equity mutual funds who are growth or value oriented in their strategy. The universe is filtered utilizing two criteria: R2 and Beta. Any mutual funds with less than 90% R2 correlation to the S&P 500 Index and a beta that is greater or less than plus or minus .15 of the S&P 500 Index are eliminated from the universe.

The **Fixed Income Manager Universe** is composed of fixed income composites for which the investment process emphasizes either interest rate forecasting (adjusting portfolio's duration), market analysis (sector analysis, issues selection or yield curve analysis) or active core (tied to a benchmark) management. Intermediate, short-term and high yield managers are excluded.



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## DEFINITION OF COMMON TERMS

### APPENDIX C

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**Alpha** is a measure of risk-adjusted return which reveals the manager's success (positive alpha) or lack of success (negative alpha) in selecting securities and timing the market. Alpha is the difference between the actual performance of the fund and the performance which should have been achieved given the market's performance and the fund's risk posture.

**Beta** is a measure of the volatility of the fund relative to an index. Funds which are equally volatile as the index will have a beta of 1.00; funds which are half as volatile will have a beta of 0.50; etc. Beta also roughly represents the return on the fund which has typically accompanied a 1 percent move in the market index. The beta coefficient reflects that component of the fund's total risk which cannot be reduced by further diversification.

The **Relative Risk/Reward Ratio** is a measure of risk adjusted return relative to the market's risk adjusted return. It is calculated by first dividing the manager's return for the period by the manager's standard deviation for the period. This quotient is then divided by the quotient of the market's return for the period divided by the market's standard deviation for the period. The measure represents the manager's rate of return per unit of risk relative to the market's rate of return per unit of risk. A ratio above 1.0 indicates positive relative performance and a ratio below 1.0 indicates a negative relative performance.

**R-Squared ( $R^2$ )** is a statistical measure of fund diversification relative to an index. Diversification can be gauged by calculating the portion of the variation in the fund's returns which is attributable to market movements. A completely diversified fund will be perfectly correlated with the market index and will have an R-squared of 100 percent. A non-diversified fund will behave independently of the market and will have an R-squared of 0 percent. An R-squared of 90 percent denotes that 90 percent of the risk is market-related, and 10 percent is unique to the fund.

**Standard Deviation** is a measure of volatility showing how widely dispersed or tightly bunched a set of returns are around their average return. Standard deviations presented in this report are based on quarterly returns and are annualized, unless otherwise indicated.

The **Style** is a description of the investment strategy used to determine the investment decisions within an asset class.

A **Universe** is a group of comparable investment styles. A Broad Universe, such as Broad Equity, refers to all styles in the Equity asset class. Style specific Universes such as Pure Small Cap, includes only styles with a high correlation to a Small Cap index and low correlation to a Large Cap index.