

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2008

APRIL 30, 2008

Market Overview

US bonds continued to sell-off on the rally in equities, on inflation worries and the increased prospect of the Fed pausing its easing cycle. In general, the broad indices posted nominal losses for the month. The fixed income market, as measured by the Lehman Aggregate Bond Index, was down 0.2% for the month of April.

Treasury Yield

Treasury yields were much higher in April as market participants attempted to ascertain the consequences of financial market volatility, a housing-led economic slowdown and Federal Reserve interest rate cuts. The yield curve steepened further as shorter term yields remained virtually unchanged while longer duration yields rose. The intermediate portion of the yield curve moved significantly in April as the three-year yield increased 70 basis points. The yield curve retained its normal shape.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.6% in April. The core CPI, which excludes food and energy, eased to 0.1% rise, after a 0.2% advance the prior month before and came in below the consensus forecast for a 0.2% rise. Year-on-year, the core rate was up 2.3%.

As expected, on April 30th, the Federal Reserve lowered interest rates for the seventh time since the credit crisis began in the summer of 2007, bringing the total amount of rate cuts to 325 basis points. The federal funds rate and the discount rate currently stand at 2.0% and 2.25%, respectively, after the 25 basis points rate cut on April 30th. The next schedule Federal Open Market Committee (FOMC) meeting is on June 25th.

Total Cash and Short-Term Investments

As of April 30, 2008, total non-endowed funds for UH System have a market value of \$235.5 million *excluding the \$58.8 million (market value) invested in the endowment fund*. This \$235.5 million represents an increase of \$3.5 million as compared to the month ending March 2008. The increase in April is attributable to increased money market balance, which fluctuate monthly to support ongoing cash flow needs of the system components.

Investment Allocation

We have completed the reallocation of the non-endowed funds to the cash, liquidity and core pools. The current allocation of these funds is 39% to the cash pool consisting of money market funds, 41% to the liquidity pool consisting of fixed income, and 20% to the core pool which is invested in the endowment. This allocation is in line with the targets of 20%, 40%, and 20% to the cash, liquidity, and core pools, respectively.

Investment Performance

The money market funds are yielding 2.62% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 1.32% annualized. The Enhanced Cash Portfolio underperformed the Merrill Lynch 1-5 year Government/Credit Index return by 31 basis points for April but outperformed the benchmark for the quarter and equaled the benchmark since inception. The first graph below compares the longer term returns of the fixed income portfolio to its benchmark. The second graph shows the asset allocation of the portfolio for the most recent and prior quarter.

