

# The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

APRIL 30, 2009

## Market Overview

The US bond market posted strong performance for the month of April, driven by a sense that the economic deterioration has slowed and the worst of the recession is now behind us.

The US Treasury market was the weakest sector of the bond market, as yields drifted higher across the yield curve pushing prices lower. On the other hand, non-Treasury sectors performed much better as risk premiums, or spreads, decreased. Investment-grade corporate bonds posted strong performance, as earnings reports comforted investors. Commercial mortgage-backed securities also performed well, supported by new Treasury programs designed to support the sector.

## Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in April. The index has fallen 0.7% over the last 12 months, due primarily to a 25.2% drop in energy prices. Meanwhile, the core CPI, which excludes food and energy, posted a 0.3% jump in April, after rising 0.2% the month before. According to the Labor Department, over 40% of the gain in the core rate was due to a second consecutive hike in tobacco taxes. Year-on-year, the core rate firmed to up 1.9% from up 1.8% the prior month.

The Fed Funds Target Rate was held constant at a range of 0.0% to 0.25% at the April 29<sup>th</sup> Federal Open Market Committee (FOMC) meeting. The next scheduled FOMC meeting is on June 24<sup>th</sup>.

## Total Cash and Short-Term Investments

As of April 30, 2009, total non-endowed funds for UH System have a market value of \$274.9 million excluding the \$38.2 million (market value) invested in the endowment fund, \$5.2 million in debt service accounts, and \$168.1 million in bond proceeds used for construction projects.

## Investment Allocation

The current allocation of the non-endow funds is 48% to the cash pool consisting of money market funds and sweep investments, 40% to the liquidity pool consisting of fixed income, and 12% to the core pool which is invested in the endowment.

## Investment Performance

As shown in the first graph below, although the \$126 million fixed income portfolio managed by JPMorgan Chase has underperformed its benchmark for the month of April, it outperformed its benchmark for the quarter and year-to-date. The manager has trimmed its allocation to agencies over the quarter and reinvested the money in treasuries. Besides, the manager participated in some taxable municipal new issuance, which came at relatively cheap spread levels, to diversify their portfolios. The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The \$149 million in AAAM rated money market funds are yielding 0.35% annualized, which slightly underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.36% annualized.

