

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2008

AUGUST 31, 2008

Quality of Funds

The fixed income portfolio remains high quality and has *no exposure to Lehman, AIG or any of the other financial sector companies* making headlines due to the concerns about their future sustainability.

There is a lot of news recently concerning some money market funds' net asset value dropping below the benchmark \$1 per share. UHS has \$132 million in money market funds used for daily operational liquidity. Most of these funds are invested in the Invesco Aim family of funds and a lesser amount is in the Columbia Management family of funds (a subsidiary of Bank of America). *Our investments at Invesco Aim and Columbia Management do not have any exposure to Lehman Brothers, AIG, Washington Mutual, or Morgan Stanley.* The NAV remains at \$1 per share.

We also invest \$134 million of bond proceeds for construction projects in TexPool, which is under the auspices of the Texas Comptroller. The funds are actually managed by Federated Investors. *Our investment in TexPool does not have any investment exposure to Lehman, AIG, Morgan Stanley, or Washington Mutual.* The NAV remains at \$1 per share.

Total Cash and Short-Term Investments

As of August 31, 2008, total non-endowed funds for UH System have a market value of \$251.6 million excluding the \$53.5 million (market value) invested in the endowment fund and \$132 million in bond proceeds used for construction projects. This \$251.6 million represents an increase of \$33.3 million as compared to the month ending July 2008.

Investment Allocation

The current allocation of the non-endow funds is 43% to the cash pool consisting of money market funds, 39% to the liquidity pool consisting of fixed income, and 18% to the core pool which is invested in the endowment.

Investment Performance

As shown in the first graph below, the \$120 million fixed income portfolio managed by JPMorgan Chase has outperformed its benchmark for the quarter and year-to-date by 57 bps and 82 bps, respectively. The second graph shows the asset allocation of the portfolio for the most recent and prior quarter. The manager has trimmed its allocation to corporates and treasuries over the quarter and reinvested the money in agencies. The \$132 million in money market funds are yielding 2.38% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 1.92% annualized.

