

# The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

AUGUST 31, 2009

## Market Overview

Appetite for risk continued to increase in the more conservative side of the market as well. The fixed income market was generally positive in August. Areas that experienced greater downside as the recession intensified continued to post better-than-average returns. For example, high yield bond returns now exceed 40% year-to-date.

Treasury yields declined slightly in August as market participants debated the impact of increased levels of Treasury bond issuance and the strength and durability of the expected economic recovery. The Treasury yield curve shifted downward and remained steep in August as long-term interest rates were much higher than short-term rates.

## Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in August. Meanwhile, the core CPI, which excludes food and energy, remained steady with a 0.1% gain, meeting the consensus forecast. On an unadjusted year-ago-basis, the core rate was up 1.4% in August.

At their August meeting, the Federal Open Market Committee did not make any changes to its target interest rate or major monetary policy initiatives. The Fed Funds rate was left unchanged at its historically low range of 0-0.25%. Bernanke's reappointment also helped remove any uncertainty that existed in the investment community.

## Total Cash and Short-Term Investments

As of August 31, 2009, total non-endowed funds for UH System have a market value of \$288.1 million excluding the \$43.5 million (market value) invested in the endowment fund, \$4.4 million in debt service accounts, and \$164.5 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, 39% to the liquidity pool consisting of fixed income, and 13% to the core pool which is invested in the endowment.

## Investment Performance

As shown in the first graph below, the \$128 million fixed income portfolio managed by JPMorgan Chase has trailed its benchmark for all periods measured. The manager has trimmed its allocation to agencies and corporate bonds over the quarter and reinvested the money in treasuries. The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The \$160 million in AAAM rated money market funds are yielding 0.11% annualized, which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.36% annualized.

