

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

FEBRUARY 28, 2009

Market Overview

After performing reasonably well in January, fixed income markets stalled amid a spate of negative economic releases, heightened concerns of bank nationalizations, and a flurry of headlines regarding government initiatives aimed at softening the downturn. Heightened risk aversion kept short-term Treasury yields very low, while rates on the longer end of the yield curve shifted marginally higher. Yet the yield on 10-year Treasuries have not broken through the 3% level because investors continue to assess the threat of increased issuance against the prospect of continued deflation this year.

The broader fixed income market, as measured by the Barclays Capital Bond Index, returned -0.38% and 2.43% for the month and the quarter, respectively, ending February.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) accelerated on a spike in energy costs, coming in higher than expectations. The index rose 0.5% in February, following a 0.4% boost the month before. Meanwhile, the core CPI, which excludes food and energy, came in at 0.2%, unchanged from January and matching the consensus. Year-on-year, the core rate is up 1.8%, compared to 1.7% in January.

No Federal Open Market Committee (FOMC) meeting was held in February. The next meeting is on March 17th.

Total Cash and Short-Term Investments

As of February 28, 2009, total non-endowed funds for UH System have a market value of \$290.5 million excluding the \$35.4 million (market value) invested in the endowment fund, \$5.2 million in debt service accounts, and \$168.3 million in bond proceeds used for construction projects.

Investment Allocation

The current allocation of the non-endow funds is 51% to the cash pool consisting of money market funds and sweep investments, 38% to the liquidity pool consisting of fixed income, and 11% to the core pool which is invested in the endowment.

Investment Performance

As shown in the first graph below, although the \$125 million fixed income portfolio managed by JPMorgan Chase has underperformed its benchmark for the quarter, it outperformed its benchmark for the month of February and year-to-date. The manager has modestly increased duration from 2.4 years to 2.6 years as they expect the Fed to be on hold for the foreseeable future. The manager continued purchasing FDIC-guaranteed bank debt issued under the Temporary Liquidity Guarantee Program (TLGP). The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The \$166 million in money market funds are yielding 0.35% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.24% annualized.

