

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2008

JANUARY 31, 2008

Market Overview

US bonds performed well on the weak economic data, as the Fed cut rates, and on flight-to-quality away from riskier markets. Low grade securities continued to suffer as investor concerns about credit, delinquencies, and the prospect of rising defaults sent yield spreads relative to Treasuries higher. The fixed income market, as measured by the Lehman Aggregate Bond Index, was up 1.7% for the month of January.

Treasury Yield

US Treasuries rallied sharply in January on the back of the 125 basis points in Fed rate cuts. Shorter term interest rates declined much more than longer term ones. As a consequence, the yield curve trended downward in January. The yield curve retained its normal shape and the slope of the curve became much steeper.

Inflation & Interest Rates

Inflation readings have moved slightly higher, raising concerns that the recent decline in inflation may be ending. The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5% in January. January was a historically significant month for the Federal Open Market Committee (FOMC), with two cuts in the Fed Funds rate totaling 1.25%, its largest rate cut in 25 years. The aggressive policy easing shows the Federal Reserve has shifted its target and is now mainly focused on supporting the banking sector and preventing a broader recession. The Fed Funds rate and the discount rate is now 3.0% and 3.5%, respectively. The next scheduled FOMC meeting is on March 18th.

Total Cash and Short-Term Investments

As of January 31, 2008, total non-endowed funds for UH System have a market value of \$310.0 million *excluding the \$43.8 million invested in the endowment fund*. This \$310 million represents an increase of \$47.3 million as compared to the month ending December 2007. The increase in January is due mainly to increased money market balances from the collection of spring semester tuition and fees. Money market balances fluctuate monthly to support ongoing cash flow needs of the system components.

Investment Allocation

We are in the process of finalizing the 3-tiered pool allocation, which targets a 40% allocation to the cash pool consisting of money market funds, 40% to the liquidity pool consisting of fixed income, and 20% to the core pool which is invested in the endowment.

Investment Performance

For the month, the money market funds are yielding 0.37% (or 4.47% annualized), which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.50% (or 6.00% annualized). The Enhanced Cash Portfolio outperformed the Merrill Lynch 1-5 year Government/Credit Index return by 13 basis points for January. 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.

