

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

JANUARY 31, 2009

Market Overview

Treasury bond yields were higher in January as market volatility moderated and investors debated the impact of much higher levels of Treasury issuance. Credit availability remained impaired and companies and individuals had difficulty accessing credit. The US economy has been in recession since December 2007 and the economic decline has accelerated following the financial market turmoil that began in September 2008.

The broader fixed income market, as measured by the Barclays Capital Bond Index, returned -0.88% and 6.16% for the month and the quarter, respectively, ending January.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) rebounded 0.4% in January. Meanwhile, the core CPI, which excludes food and energy, firmed to 0.2% after no change in December. The market had projected a 0.1% uptick for January. Year-on-year, the core rate is up 1.7%, unchanged from December.

The Federal Reserve kept rates at 0.0 – 0.25% and reiterated its commitment to further extend, if necessary, its non-conventional easing measures to support the economy. The next scheduled Federal Open Market Committee (FOMC) meeting is on March 17th.

Total Cash and Short-Term Investments

As of January 31, 2009, total non-endowed funds for UH System have a market value of \$291.3 million excluding the \$37.6 million (market value) invested in the endowment fund, \$14.0 million in debt service accounts, and \$75.3 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 January. The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The manager has trimmed its allocation to agencies over the quarter and reinvested the money in treasuries. The manager continued purchasing FDIC-guaranteed bank debt issued under the Temporary Liquidity Guarantee Program (TLGP). The \$167 million in money market funds are yielding 0.67% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of -0.12% annualized.

