

# The University of Houston System Non-Endowed Investments



FISCAL YEAR 2008

JULY 31, 2008

## Market Overview

Bond markets were generally flat and were held back by continued high inflation last month. In the Treasury market, yields decreased across most of the yield curve, but remain well above March lows. The yield curve steepened nominally during July. Shorter term yields fell 22 basis points, as measured by the 3-month Treasury. The 10-year Treasury remained virtually unchanged, while longer-term yields increased marginally during the month. The broader fixed income market, as measured by the Lehman Aggregate Bond Index, returned -0.1% and -0.9% for the month and quarter, respectively, ending July.

## Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.5% in July. The core CPI, which excludes food and energy, remained elevated with a 0.3% boost, matching June's gain and topping the consensus forecast for a 0.2% increase. Year-on-year, the core rate firmed to 2.5% from 2.4% the prior month. The rise in the core rate was led mainly by airfares, apparel and tobacco. The Fed met on August 5 with no change to the current 2.0% Fed Funds rate. The markets now anticipate that the Fed Funds rate will stay unchanged until late 2008. Fed Funds futures currently suggest that an increase in the rate is somewhat probable by year end.

## Total Cash and Short-Term Investments

As of July 31, 2008, total non-endowed funds for UH System have a market value of \$218.3 million *excluding the \$54.5 million (market value) invested in the endowment fund*. This \$218.3 million represents a decrease of \$26.7 million as compared to the month ending June 2008.

## Investment Allocation

The current allocation of the non-endow funds is 36% to the cash pool consisting of money market funds, 44% to the liquidity pool consisting of fixed income, and 20% to the core pool which is invested in the endowment. The target allocation is 40%, 40%, and 20% to the cash, liquidity, and core pools, respectively.

## Investment Performance

The money market funds are yielding 2.36% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 2.16% annualized. The fixed income portfolio outperformed the LB Intermediate-Term Government/Credit Index return by 29 basis points for July. It also outperformed the benchmark for the quarter by 96 basis points last month. 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.

