

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

JULY 31, 2009

Market Overview

The US bond market performed well during the month, as investors were encouraged by better-than-expected reports on second quarter earnings and the housing market. Money quickly shifted out of Treasuries and into riskier assets, which translated into a modest rise in Treasury yields for the month and a further decline in spreads in other sectors. The broader fixed income market, as measured by the Barclays Capital Bond Index, returned 1.61% and 2.94% for the month and the quarter, respectively, ending July.

The Treasury market was little changed at the end of July from the previous month. However, yields fluctuated widely intra-month as market participants debated the impact of increased level of Treasury bond issuance and the possibility that the global recession is nearing an end. The yield curve remains steep as long-term interest rates are much higher than short-term rates.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.2% in July. Meanwhile, the core CPI, which excludes food and energy, slowed to a 0.1% uptick in July after rising 0.2% in June. On an unadjusted year-ago-basis, the core rate was up 1.5% in July.

The Federal Reserve has kept its short-term interest rate near 0% all year with the hopes of reigniting the economy. The next scheduled FOMC meeting is on August 12th.

Total Cash and Short-Term Investments

As of July 31, 2009, total non-endowed funds for UH System have a market value of \$266.7 million excluding the \$41.5 million (market value) invested in the endowment fund, \$8.9 million in debt service accounts, and \$173.6 million in bond proceeds used for construction projects.

Investment Allocation

The current allocation of the non-endow funds is 45% to the cash pool consisting of money market funds and sweep investments, 41% to the liquidity pool consisting of fixed income, and 14% to the core pool which is invested in the endowment.

Investment Performance

As shown in the first graph below, the \$127 million fixed income portfolio managed by JPMorgan Chase has trailed its benchmark for all periods measured. The manager has trimmed its allocation to agencies 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 \$140 million in AAAM rated money market funds are yielding 0.12% annualized, which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.24% annualized.

