

# The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

JUNE 30, 2009

## Market Overview

As the degree of investor gloom declined, high-quality bond returns sputtered in June. The Barclays Aggregate Index managed a fractional gain for the month of June. However, municipal bonds failed to keep pace, as concerns about municipal financial strength increased. High yield bonds posted positive gains to close out a quarter in which their performance exceeded even the broad U.S. stock market.

The yield on the 10-year Treasury spiked nearly 0.8% during the quarter, ending June at about 3.5%. Shorter term yields have remained exceptionally low for more than eight months. The yield curve has steepened 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) increased 0.9% in June. Meanwhile, the core CPI, which excludes food and energy, firmed to a 0.2% in June from a 0.1% uptick in May. The market expectation was for a 0.1% gain for the core. Year-on-year, the core rate eased to up 1.7% from up 1.8% in May.

On the June 24<sup>th</sup> Federal Open Market Committee (FOMC), the Federal Reserve announced that they remain more concerned with reinvigorating the economy than with short-term inflationary pressures, and they intend to keep the fed funds rate at exceptionally low levels. The next scheduled FOMC meeting is on August 12<sup>th</sup>.

## Total Cash and Short-Term Investments

As of June 30, 2009, total non-endowed funds for UH System have a market value of \$282.7 million excluding the \$39.9 million (market value) invested in the endowment fund, \$5.2 million in debt service accounts, and \$127.3 million in bond proceeds used for construction projects.

## Investment Allocation

The current allocation of the non-endow funds is 49% to the cash pool consisting of money market funds and sweep investments, 39% to the liquidity pool consisting of fixed income, and 12% 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 underperformed its benchmark for all periods measured. The manager has continued to trim its allocation to agencies over the quarter and reinvested the money in other sectors. The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The \$156 million in AAAM rated money market funds are yielding 0.21% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.12% annualized.

