

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2008

MARCH 31, 2008

Market Overview

After a string of aggressive moves by the Federal Reserve and signs that the government is ready to support the slumping housing market, financial markets have finally started to trade with a more positive tone in recent weeks. US bonds initially rallied in March, on the weak economic data, but then sold off as the mood on the longer-term economic outlook improved. The fixed income market, as measured by the Lehman Aggregate Bond Index, was up 0.3% for the month of March.

Treasury Yield

The yield curve retained its normal shape and trended downward further in March. Most of the move in yields occurred at the short end of the curve as the Fed's rate cutting campaign continued. Longer maturity yields experienced marginal declines. The ten-year treasury yield ended the month at 3.45%, only 8 basis points lower than at the end of February.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.9% in March. The core CPI, which excludes food and energy, rose 0.2%, after a flat reading last month and equaled the consensus forecast. Year-on-year, the core rate rose to up 2.4% from up 2.3% the previous month. The Federal Open Market Committee (FOMC) lowered the federal funds rate and the discount rate 75 basis points at their meeting on March 18th. The federal funds rate and the discount rate currently stand at 2.25% and 2.5%, respectively. The next schedule FOMC meeting is on April 30th.

Total Cash and Short-Term Investments

As of March 31, 2008, total non-endowed funds for UH System have a market value of \$232.0 million *excluding the \$57.7 million (market value) invested in the endowment fund*. This \$232.0 million represents a decrease of \$18.3 million as compared to the month ending February 2008. The decrease in March is attributable to a decline in money market funds, which fluctuate monthly to support ongoing cash flow needs of the system components.

Investment Allocation

We have completed the reallocation of the non-endowed funds to the cash, liquidity and core pools. This effort has resulted in a current allocation of these funds as follows: 38% to the cash pool consisting of money market funds, 42% to the liquidity pool consisting of fixed income, and 20% to the core pool which is invested in the endowment.

Investment Performance

The money market funds are yielding 3.00% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 2.76% annualized. The Enhanced Cash Portfolio outperformed the Merrill Lynch 1-5 year Government/Credit Index return by 32 basis points for March. The AAA weighted average credit quality of the portfolio is helping to generate the net performance in the short term relative to the benchmark. 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.

