

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

MARCH 31, 2009

Market Overview

Performance in the fixed income market was generally positive for the month. The positive return of the Barclays Aggregate Index pushed its return back into positive territory year-to-date.

The US Treasury market posted strong returns, as the Fed's plan to purchase assets helped to push yields lower and prices higher. In contrast, lower quality, high-yield bonds and loans posted impressive gains, outperforming Treasuries by a wide margin for the month as well as the quarter. The performance of high-yield bonds was so good that the year-to-date return of the Barclays High Yield Index outpaced the S&P by nearly 17% even after the March equity market rally.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.2% in March. The index has decreased 0.4% over the last year, the first 12 month decline since August 1955. Meanwhile, the core CPI, which excludes food and energy, remained steady at 0.2%, equaling the market expectation. Year-on-year, the core rate was steady at up 1.8%.

At their March 18th meeting, the Federal Open Market Committee (FOMC) determined to maintain the Fed Funds rate at a range of 0.0% to 0.25%. This target rate has remained unchanged since December 2008. Expectations are for this rate to remain low for an extended period.

Total Cash and Short-Term Investments

As of March 31, 2009, total non-endowed funds for UH System have a market value of \$287.8 million excluding the \$36.2 million (market value) invested in the endowment fund, \$5.2 million in debt service accounts, and \$168.0 million in bond proceeds used for construction projects.

Investment Allocation

The current allocation of the non-endow funds is 50% to the cash pool consisting of money market funds and sweep investments, 39% 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 \$126 million fixed income portfolio managed by JPMorgan Chase has underperformed its benchmark for the month of March, it outperformed its benchmark year-to-date. The manager has added duration with fixed-rate securities ranging from 6 months to 18 months in maturity to take advantage of the steepness of the yield curve. The manager's strategy is to continue to reduce exposure to higher risk bonds when they believe market liquidity and pricing are reasonable. The second graph below shows the asset allocation of the portfolio for the most recent and prior quarter. The \$162 million in money market funds are yielding 0.40% annualized, which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.48% annualized.

