

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

MAY 31, 2009

Market Overview

Recent indicators have provided tentative signs that the pace of economic decline is moderating. Although the economy lost 345,000 jobs in May, the decline was less than forecast.

Longer-term Treasury bond yields were higher in May as investors grew increasingly concerned that an explosion in bond issuance will be needed to finance the surging government deficit. Investors also sold Treasuries in reaction to signs of economic stabilization, reduced financial market volatility, and increasing confidence in the health of the banking system. The yield on the 10-year Treasury bond has jumped 80 basis points since March and the yield curve has steepened to a new record high.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) increased 0.3% in May. Meanwhile, the core CPI, which excludes food and energy, eased to a 0.1% rise in May, after jumping 0.3% the prior month. The smaller increase was partly due to the tobacco and smoking products index, which turned down in May after rising sharply in March and April. Year-on-year, the core rate slipped to up 1.8% from up 1.9% the prior month.

No Federal Open Market Committee (FOMC) meeting was held in May. The next scheduled FOMC meeting is on June 24th.

Total Cash and Short-Term Investments

As of May 31, 2009, total non-endowed funds for UH System have a market value of \$294.2 million excluding the \$40.0 million (market value) invested in the endowment fund, \$5.2 million in debt service accounts, and \$139.3 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, 38% 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, although the \$127 million fixed income portfolio managed by JPMorgan Chase has underperformed its benchmark for the month and the quarter, it outperformed its benchmark year-to-date. 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 \$168 million in AAAM rated money market funds are yielding 0.27% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.12% annualized.

