The University of Houston System
Non-Endowed Investments

FISCAL YEAR 2009 | NOVEMBER 30, 2008

Market Overview

In the bond market, Treasury bonds performed extremely well in November on safe-haven buying, weak economic data and deflation worries. Yields on Treasuries represented all-time lows, surpassing records set in 2003. The Treasury yield curve shifted significantly downward in November. The shorter end of the curve fell to virtually zero, as measured by the three-month Treasury yield. Near-zero short-term yields indicate fearful investors are simply looking for a safe place to store capital to avoid losses.

As credit concerns have marginally subsided, investors regained some confidence with investment-grade fixed income during November. The Lehman Brothers Aggregate Bond Index surged last month.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) fell for the fourth consecutive month in a row due to lower energy costs. Meanwhile, the core CPI, which excludes food and energy, was flat. Year-on-year, the core rate is up 2.0%. The Federal Open Market Committee (FOMC) did not meet formally during November. However, the central bank reduced the federal funds rate, the interest that banks charge each other, to a range of zero to 0.25% at the December 16th FOMC meeting. This is down from the 1% target rate in effect since the last meeting in October.

Total Cash and Short-Term Investments

As of November 30, 2008, total non-endowed funds for UH System have a market value of $266.9 million excluding the $38.6 million (market value) invested in the endowment fund and $75.2 million in bond proceeds used for construction projects.

Investment Allocation

The current allocation of the non-endow funds is 47% to the cash pool consisting of money market funds and sweep investments, 40% to the liquidity pool consisting of fixed income, and 13% to the core pool which is invested in the endowment.

Investment Performance

As shown in the first graph below, the $121 million fixed income portfolio managed by JPMorgan Chase has significantly outperformed its benchmark for the month, quarter and year-to-date by 160 bps, 366 bps and 465 bps, respectively. The second graph shows the asset allocation of the portfolio for the most recent and prior quarter. The manager has trimmed its allocation to treasuries over the quarter and reinvested the money in agencies. Besides, the manager has added an overweight to the TIPS (Treasury Inflation Protection Securities) sector, as the market has priced in minimal inflation and some parts of the curve are pricing in disinflation. The $147 million in money market funds are yielding 2.51% annualized, which outperformed the Merrill Lynch 91-Day Treasury Bill Index of 1.32% annualized.