The University of Houston System Non-Endowed Investments

FISCAL YEAR 2009 | OCTOBER 31, 2008

Total Cash and Short-Term Investments

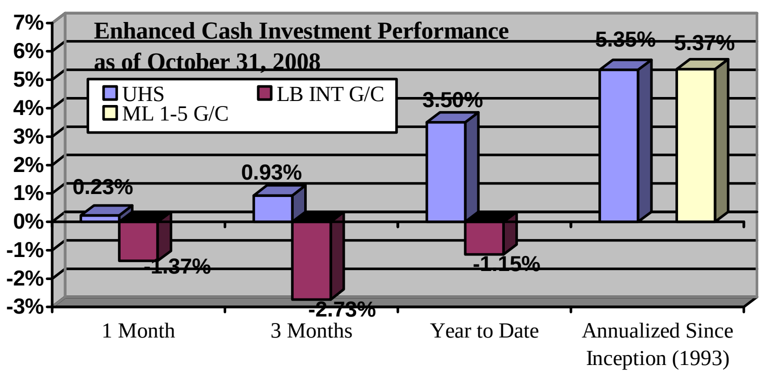
As of October 31, 2008, total non-endowed funds for UH System have a market value of $267.2 million excluding the $42.1 million (market value) invested in the endowment fund and $85.4 million in bond proceeds used for construction projects.

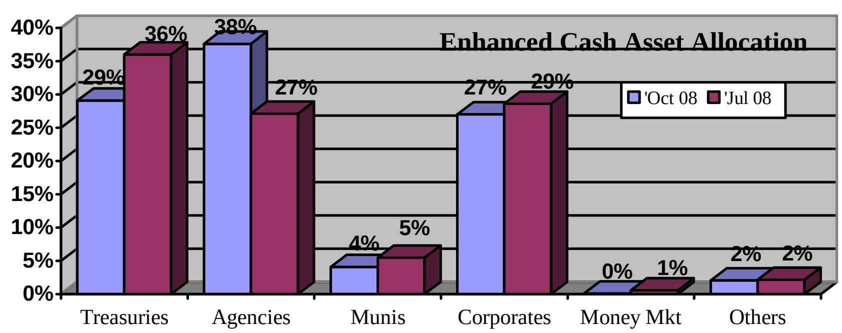
Investment Allocation

The current allocation of the non-endow funds is 47% to the cash pool consisting of money market funds, 39% to the liquidity pool consisting of fixed income, and 14% 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.





Market Overview

The seized credit markets continued to take center stage in October. Credit availability remained impaired and companies and banks had difficulty accessing credit. Treasury bond yields were mixed in October. Short-term rates fell sharply while longer-term rates rose and yield curves steepened in response to the nearly unprecedented level of global economic weakness and coordinated central bank easing. The broader fixed income market, as measured by the Lehman Aggregate Bond Index, returned -2.4% and -2.8% for the month and the quarter, respectively, ending October.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) fell 1.0% in October, following a flat reading the prior month. The core CPI, which excludes food and energy, dipped 0.1% after edging up 0.1% in September. The core figure was softer than the market forecast for a 0.1% rise. Year-on-year, the core rate declined to up 2.2%, compared to up 2.5% in September.

The Federal Open Market Committee (FOMC) cut the federal funds rate twice during the month; by 50 basis points at an inter-meeting move on October 8th and by another 50 basis points at their regularly scheduled meeting on October 29th to 1%. It is the lowest rate since May 2004. The next scheduled FOMC meeting is on December 16th.