

# The University of Houston System Non-Endowed Investments



FISCAL YEAR 2009

SEPTEMBER 30, 2008

## Market Overview

While the equity market was struggling last month, much of the fixed income market also came under concurrent pressure. Yields on corporate bonds – regardless of credit rating – increased during the month, resulting in negative performance. Even high-quality municipal bonds were subjected to pressured selling during September. Treasury bond yields were much lower in September as market participants sought safety due to market volatility. The flight to quality was so desperate that at its peak, investors bid up prices on short-term treasuries to the point of receiving a negative return. As compared to a year ago, there has been a significant steepening of the yield curve. The yield curve ended the month at levels similar to the cyclical bottom seen in March, following the Bear Stearns insolvency.

## Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) decreased 0.1% in September. The core CPI, which excludes food and energy, softened to a 0.1% gain and came in lower than the consensus forecast for a 0.2% rise. Year-on-year, the core rate was unchanged at 2.5% compared to the prior month.

The Federal Open Market Committee (FOMC) held the federal funds rate at 2.0% at their meeting on September 16<sup>th</sup>. Then, in conjunction with several other foreign central banks, the Federal Reserve announced an unprecedented, coordinated interest rate cut on October 8<sup>th</sup>. This move brought the Fed Funds rate down to 1.5%. The next scheduled FOMC meeting is on October 29<sup>th</sup>.

## Total Cash and Short-Term Investments

As of September 30, 2008, total non-endowed funds for UH System have a market value of \$229.3 million excluding the \$49.6 million (market value) invested in the endowment fund and \$132.7 million in bond proceeds used for construction projects. This \$229.3 million represents a decrease of \$22.3 million as compared to the month ending August 2008.

## Investment Allocation

The current allocation of the non-endow funds is 39% to the cash pool consisting of money market funds, 43% to the liquidity pool consisting of fixed income, and 18% to the core pool which is invested in the endowment.

## Investment Performance

As shown in the first graph below, the \$120 million fixed income portfolio managed by JPMorgan Chase has significantly outperformed its benchmark for the month, quarter and year-to-date by 217 bps, 237 bps and 304 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. The \$109 million in money market funds are yielding 2.35% annualized, which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 3.60% annualized.

