

The University of Houston System Non-Endowed Investments



FISCAL YEAR 2010

SEPTEMBER 30, 2009

Market Overview

While stocks posted solid gains for the quarter, fixed income also performed well, particularly those at the riskier end of the bond spectrum. High yield bonds again outpaced their lower-risk brethren, gaining an equity-like 14% for the quarter. Even the high-quality standard-bearer for the market, the Barclays Capital Aggregate Index, returned nearly 4% for the quarter.

US Treasuries edged higher as additional supply continued to be absorbed by the market. Investors also remain concerned about the strength and durability of the economic recovery. The yield curve remains steep.

Inflation & Interest Rates

The Consumer Price Index for All Urban Consumers (CPI-U) rose 0.1% in September. The core CPI, which excludes food and energy, firmed slightly, rising 0.2% after a 0.1% increase in August. The latest number came in a little above the market forecast for a 0.1% rise. On an unadjusted year-ago-basis, the core rate was up 1.5% in September.

The statement following the most recent meeting of the Federal Open Market Committee (FOMC) released on September 23rd indicated that activity has increased throughout the economy and financial market conditions continue to improve. The Committee maintained the target range for the Federal Funds rate at 0% - 0.25%. The next scheduled FOMC meeting is on November 4th.

Total Cash and Short-Term Investments

As of September 30, 2009, total non-endowed funds for UH System have a market value of \$276.4 million excluding the \$44.9 million (market value) invested in the endowment fund, \$4.4 million in debt service accounts, and \$161.4 million in bond proceeds used for construction projects.

Investment Allocation

The current allocation of the non-endow funds is 46% to the cash pool consisting of money market funds and sweep investments, 40% 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 \$129 million fixed income portfolio managed by JPMorgan Chase has trailed its benchmark for all periods measured. The manager has trimmed its allocation to agencies and corporate bonds 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 \$148 million in AAAM rated money market funds are yielding 0.16% annualized, which underperformed the Merrill Lynch 91-Day Treasury Bill Index of 0.24% annualized.

