

The University of Houston System Endowment Fund



FISCAL YEAR 2009

AUGUST 31, 2009

Market Overview

August marked a six-month upward trend in equity markets. After bottoming in March of this year, the S&P 500 has since rebounded more than 50%, while the NASDAQ is up an even more impressive 65%. Year-to-date returns are now well above historical annual averages; although in comparison with the declines from the prior year, equity indexes remain well below their previous peaks.

Small Cap vs. Large Cap & Growth vs. Value

Large cap equities returned 3.63%, which outperformed small cap equities by 76 basis points for the month of August. From a style standpoint, both large cap and small cap value stocks outperformed its counterpart for the month of August by 316 and 375 basis points, respectively.

Global Market Overview

As measured by the MSCI EAFE Index, international equities returned 5.44% for the month. The MSCI EAFE value outperformed growth by 435 basis points for the month of August. Except for the 3 year period, MSCI EAFE value stocks have outperformed its growth counterpart for all periods measured.

Valuation

The market value at the end of August was \$430 million, including \$43 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment fund lagged the Dynamic Portfolio Benchmark B for the month, quarter, calendar-year-to-date and 1-year ending August 31, 2009. The Dynamic Portfolio Benchmark B is comprised of the S&P 500, MSCI EAFE, S&P 500 + 5%, HFRI Absolute Return Index, HFRX Equity Hedge Index, Wellington DIH Custom Benchmark, BC Intermediate Govt/Credit and Merrill Lynch 91 Day T-Bills, weighted to each asset class' proportionate share, as measured at the beginning of the period, of total assets on a monthly basis.

Table 1	One Month	Three Months	Calendar YTD	One Year
UHS Endowment	+1.73%	+5.97%	+12.91%	-13.74%
Dynamic Portfolio Benchmark B	+2.32%	+6.71%	+13.13%	-11.55%
DJIA	+3.97%	+12.61%	+10.79%	-14.85%
S&P 500 Index	+3.61%	+11.67%	+14.97%	-18.25%
Russell 1000 Index	+3.63%	+11.81%	+16.36%	-18.39%
Russell 2000 Index	+2.87%	+14.43%	+15.75%	-21.29%
NAREIT Equity	+13.39%	+20.59%	+9.97%	-32.83%
MSCI EAFE Index	+5.44%	+14.41%	+24.21%	-14.95%
BC Aggregate Bond Index	+1.04%	+3.25%	+4.63%	+7.95%
CPI-U	+0.22%	+0.92%	+2.67%	-1.48%

Asset Allocation

The portfolio's asset allocation is in compliance with the investment policy as indicated in table 2.

Table 2	Asset Allocation	Asset Allocation	FY 2009 Target	Long-term Target	Policy
Asset Class	08/31/09	08/31/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	103,387	24.0	27.5	25.0	15 – 45
International	<u>86,306</u>	<u>20.1</u>	<u>26.5</u>	<u>25.0</u>	<u>15 – 35</u>
Total Equities	189,693	44.1	54.0	50.0	30 – 80
Fixed Income	65,626	15.3	15.0	15.0	10 – 30
Absolute Return	40,681	9.5	7.5	7.5	5 – 15
Hedged Equities	46,418	10.8	9.0	7.5	5 – 15
Inflation Hedge	48,572	11.3	10.0	10.0	5 – 15
Alternatives	6,917	1.6	2.0	10.0	0 – 12
Cash	<u>32,309</u>	<u>7.5</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>430,216</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$30.9 million at the end of August.