

The University of Houston System Endowment Fund



FISCAL YEAR 2009

JULY 31, 2009

Market Overview

US equities posted strong gains in July as the hope of an end to the recession and generally above-consensus earnings news drove investors to bid up stocks for a fifth consecutive month. The S&P 500 index reached its highest level since the beginning of November 2008 and all sectors posted positive returns.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 9.63%, which outperformed large cap equities by 200 basis points for the month of July. Except for the 1 year and 3 years period, small cap stocks have outperformed large cap stocks for all periods measured. From a style standpoint, both large cap and small cap value stocks outperformed its counterpart for the month of July by 109 and 243 basis points, respectively.

Global Market

Overview

Aided by the continued weakening of the U.S. Dollar, international equities also furthered their rally in the month of July. As measured by the MSCI EAFE Index, international equities returned 9.13% for the month. The MSCI EAFE value outperformed growth by 106 basis points for the month of July.

Valuation

The market value at the end of July was \$417 million, including \$42 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment fund outperformed the Dynamic Portfolio Benchmark B calendar-year-to date ending July 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	+4.39%	+9.65%	+10.99%	-16.25%
Dynamic Portfolio Benchmark B	+4.85%	+10.23%	+10.56%	-14.48%
DJIA	+8.75%	+13.20%	+6.56%	-16.62%
S&P 500 Index	+7.56%	+13.80%	+10.96%	-19.96%
Russell 1000 Index	+7.63%	+13.87%	+12.28%	-20.17%
Russell 2000 Index	+9.63%	+14.60%	+12.53%	-20.72%
NAREIT Equity	+10.47%	+8.64%	-3.02%	-39.46%
MSCI EAFE Index	+9.13%	+21.35%	+17.81%	-22.60%
BC Aggregate Bond Index	+1.61%	+2.94%	+3.55%	+7.85%
CPI-U	-0.16%	+0.99%	+2.44%	-2.10%

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 Range
Asset Class	07/31/09	07/31/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	105,437	25.3	27.5	25.0	20 - 50
International	<u>90,022</u>	<u>21.6</u>	<u>26.5</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	195,459	46.9	54.0	50.0	30 - 80
Fixed Income	64,921	15.6	15.0	15.0	15 - 30
Absolute Return	28,692	6.9	7.5	7.5	5 - 10
Hedged Equities	46,441	11.1	9.0	7.5	5 - 10
Inflation Hedge	48,040	11.5	10.0	10.0	5 - 15
Alternatives	6,801	1.6	2.0	10.0	0 - 10
Cash	<u>26,208</u>	<u>6.3</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>416,562</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$31.1 million at the end of July.