The University of Houston System
Endowment Fund

FISCAL YEAR 2009 | JUNE 30, 2009

Market Overview

After posting strong gains for the prior three months, US equities were mostly flat for the month of June. However, global equities surged in terms of quarterly performance. The S&P 500 Index return of nearly 16% represented its single best quarterly return since the final three months of 1998. Small cap stocks boasted returns in excess of 20% for the quarter, while international markets also followed suit.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 1.47%, which outperformed large cap equities by 123 basis points for the month of June. Except for the 3 year period, small cap stocks have outperformed large cap stocks for all periods measured. From a style standpoint, both large cap and small cap growth stocks outperformed its counterpart for the month of June by 186 and 356 basis points, respectively.

Global Market Overview

International equities lagged US equities slightly for the month of June. International equities, as measured by the MSCI EAFE Index, returned -0.57% for the month. The MSCI EAFE growth outperformed value slightly by 89 basis points for the month of June.

Valuation

The market value at the end of June was $399 million, including $40 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 for the month, quarter and calendar-year-to date ending June 30, 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	+0.10%	+11.73%	+6.32%	-21.61%
Dynamic Portfolio Benchmark B	-0.54%	+10.90%	+5.45%	-20.42%
DJIA	-0.41%	+11.96%	-2.01%	-23.00%
S&P 500 Index	+0.20%	+15.93%	+3.16%	-26.22%
Russell 1000 Index	+0.24%	+16.50%	+4.32%	-26.69%
Russell 2000 Index	+1.47%	+20.69%	+2.64%	-25.01%
NAREIT Equity	-3.73%	+28.85%	-12.21%	-43.29%
MSCI EAFE Index	-0.57%	+25.43%	+7.95%	-31.35%
BC Aggregate Bond Index	+0.57%	+1.79%	+1.91%	+6.06%
CPI-U	+0.86%	+1.40%	+2.60%	-1.43%

Asset Allocation

The portfolio's asset allocation is in compliance with the investment policy as indicated in table 2. The international equity and fixed income include transfers to Silchester and Mondrian, respectively, which are not effective until July 1, 2009.

Table 2 Asset Class	Asset Allocation 06/30/09	Asset Allocation 06/30/09	FY 2009 Target Allocation	Long-term Target Allocation	Policy Range
	$000s	%	%	%	%
Equities					
US Equity	98,309	24.6	27.5	25.0	20 - 50
International	83,187	20.9	26.5	25.0	10 - 30
Total Equities	181,496	45.5	54.0	50.0	30 - 80
Fixed Income	73,818	18.5	15.0	15.0	15 - 30
Absolute Return	28,234	7.1	7.5	7.5	5 - 10
Hedged Equities	44,734	11.2	9.0	7.5	5 - 10
Inflation Hedge	47,579	11.9	10.0	10.0	5 - 15
Alternatives	6,532	1.6	2.0	10.0	0 - 10
Cash	16,547	4.1	2.5	0.0	
Total	398,941	100%	100%	100%	

Unfunded commitments to partnership investments were $31.6 million at the end of June.