

The University of Houston System Endowment Fund



FISCAL YEAR 2009

MAY 31, 2009

Market Overview

Stock markets followed their strong March and April performance with further gains in May. These gains pushed most U.S. indices back into positive territory for the year. Rebounding consumer and business sentiment around the globe and enthusiasm over the much-anticipated results of the bank stress tests in the U.S. all contributed to the positive performance of the markets.

Small Cap vs. Large Cap & Growth vs. Value

Large cap equities returned 5.53%, which outperformed small cap equities by 252 basis points for the month of May. Except for the 1 month and 3 year period, small cap stocks have outperformed large cap stocks for all periods measured. From a style standpoint, large cap value stocks outperformed its counterpart for the month of May by 122 basis points; while small cap growth stocks outperformed its counterpart for the month by 171 basis points.

Global Market Overview

International equities posted another month of strong gains in May. International equities, as measured by the MSCI EAFE Index, returned 11.8% for the month. The MSCI EAFE growth outperformed value slightly by 12 basis points for the month of May. Value has outperformed growth for all periods measured except for the 1 month and 3 year period.

Valuation

The market value at the end of May was \$397 million, including \$40 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment fund underperformed the Dynamic Portfolio Benchmark B for the month, quarter and one year ending May 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	+5.13%	+15.56%	+6.21%	-25.66%
Dynamic Portfolio Benchmark B	+5.70%	+16.26%	+6.02%	-23.42%
DJIA	+4.52%	+21.34%	-1.61%	-30.45%
S&P 500 Index	+5.59%	+25.83%	+2.96%	-32.57%
Russell 1000 Index	+5.53%	+26.38%	+4.07%	-32.95%
Russell 2000 Index	+3.01%	+29.56%	+1.15%	-31.79%
NAREIT Equity	+2.16%	+39.28%	-8.81%	-47.50%
MSCI EAFE Index	+11.83%	+34.14%	+8.57%	-36.61%
BC Aggregate Bond Index	+0.73%	+2.62%	+1.33%	+5.37%
CPI-U	+0.29%	+0.78%	+1.73%	-1.28%

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 Allocation	Long-term Target Allocation	Policy Range
Asset Class	05/31/09	05/31/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	98,133	24.7	27.5	25.0	20 - 50
International	83,340	21.0	25.0	25.0	10 - 30
Total Equities	181,473	45.7	52.5	50.0	30 - 80
Fixed Income	53,566	13.5	15.0	15.0	15 - 30
Absolute Return	27,758	7.0	7.5	7.5	5 - 10
Hedged Equities	44,389	11.2	12.5	7.5	5 - 10
Inflation Hedge	48,494	12.2	10.0	10.0	5 - 15
Alternatives	6,292	1.6	<1.0	10.0	0 - 10
Cash	35,500	8.9	2.5	0.0	
Total	397,472	100%	100%	100%	

Unfunded commitments to partnership investments were \$31.9 million at the end of May.