

The University of Houston System Endowment Fund



FISCAL YEAR 2010

SEPTEMBER 30, 2009

Market Overview

US equities posted positive returns again in September, further enhancing investor gains for the third quarter. The market rose for a seventh consecutive month. After bottoming in March of this year, the S&P 500 has since rebounded more than 50%, even though the level still remained below those of a year ago, prior to the collapse of Lehman Brothers. Concurrent with positive returns, market volatility remained well below its previously lofty levels.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 5.77%, which outperformed large cap equities by 171 basis points for the month of September. Except for the 1 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 September by 39 and 155 basis points, respectively.

Global Market Overview

Global equities had a strong month in September as optimism over the world economy continued to build. As measured by the MSCI EAFE Index, international equities returned 3.86% for the month. The MSCI EAFE growth outperformed value by 64 basis points for the month of September.

Valuation

The market value at the end of September was \$446 million, including \$45 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 September 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	+3.25%	+10.18%	+16.58%	-1.57%
Dynamic Portfolio Benchmark B	+2.42%	+8.81%	+14.75%	-1.52%
DJIA	+2.43%	+15.82%	+13.49%	-7.38%
S&P 500 Index	+3.73%	+15.61%	+19.26%	-6.91%
Russell 1000 Index	+4.06%	+16.07%	+21.08%	-6.14%
Russell 2000 Index	+5.77%	+19.28%	+22.43%	-9.55%
NAREIT Equity	+6.40%	+33.28%	+17.00%	-28.40%
MSCI EAFE Index	+3.83%	+19.47%	+28.97%	+3.23%
BC Aggregate Bond Index	+1.05%	+3.74%	+5.72%	+10.56%
CPI-U	+0.06%	+0.13%	+2.73%	-1.29%

Asset Allocation

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

Table 2	Asset Allocation 09/30/09	Asset Allocation 09/30/09	FY 2010 Target Allocation	Long-term Target Allocation	Policy Range
Asset Class	\$000s	%	%	%	%
Equities					
US Equity	102,223	22.9	22.5	25.0	15 – 45
International	90,596	20.3	20.0	25.0	15 – 35
Total Equities	192,819	43.2	42.5	50.0	30 – 80
Fixed Income	66,429	14.9	16.0	15.0	10 – 30
Absolute Return	53,468	12.0	12.5	7.5	5 – 15
Hedged Equities	54,084	12.1	12.5	7.5	5 – 15
Inflation Hedge	46,248	10.4	11.0	10.0	5 – 15
Alternatives	7,284	1.6	2.0	10.0	0 – 12
Cash	25,753	5.8	3.5	0.0	
Total	446,085	100%	100%	100%	

Unfunded commitments to partnership investments were \$30.5 million at the end of September.