

The University of Houston System Endowment Fund



FISCAL YEAR 2009

JANUARY 31, 2009

Market Overview

US equities declined sharply in January as the slumping US economy deteriorated further and gloomy economic news pressured equity markets. Equities generally were pulled lower by renewed worries over bad asset write-offs and capital raising in US and European banks. Financial service was the worst-performing sector in the S&P 500 index because of the continuing deterioration of the major banks' financial conditions.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned -11.1%, which underperformed large cap equities by 296 basis points. Except for the 1 year and 10 years period, large cap stocks have outperformed small 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 January by 669 and 667 basis points, respectively.

Global Market Overview

After posting a modest increase in December, global equity markets have started the year of 2009 in bearish territory. International equities, as measured by the MSCI EAFE Index, dropped 9.8% in January. Developed markets declined but outperformed their US counterparts. At the same time, emerging markets declined amid falling commodity prices and weakening exports to developed markets. The MSCI EAFE growth outperformed value by 257 basis points last month.

Valuation

The market value at the end of January was \$395 million, including \$38 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment fund outperformed the dynamic portfolio benchmark for the month but trailed the benchmark over the longer periods measured. The Dynamic Portfolio Benchmark 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	-3.53%	-5.71%	-3.53%	-29.55%
Dynamic Portfolio Benchmark	-4.06%	-5.45%	-4.06%	-27.79%
DJIA	-8.65%	-13.42%	-8.65%	-34.90%
S&P 500 Index	-8.43%	-14.09%	-8.43%	-38.63%
Russell 1000 Index	-8.16%	-13.75%	-8.16%	-39.04%
Russell 2000 Index	-11.12%	-17.09%	-11.12%	-36.84%
NAREIT Equity	-17.31%	-25.94%	-17.31%	-47.97%
MSCI EAFE Index	-9.81%	-9.56%	-9.81%	-43.74%
BC Aggregate Bond Index	-0.88%	+6.16%	-0.88%	+2.59%
CPI-U	+0.44%	-2.51%	+0.44%	+0.03%

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	01/31/09	01/31/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	88,098	22.3	27.5	25.0	20 - 50
International	<u>66,834</u>	<u>16.9</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	154,932	39.2	52.5	50.0	30 - 80
Fixed Income	52,445	13.3	15.0	15.0	15 - 30
Absolute Return	26,670	6.8	7.5	7.5	5 - 10
Hedged Equities	41,571	10.5	12.5	7.5	5 - 10
Inflation Hedge	48,861	12.4	10.0	10.0	5 - 15
Alternatives	6,184	1.6	<1.0	10.0	0 - 10
Cash	<u>63,956</u>	<u>16.2</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>394,619</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$33.3 million at the end of January.