

# The University of Houston System Endowment Fund



FISCAL YEAR 2008

APRIL 30, 2008

## Indices at a Glance – Apr '08

| Index              | One Month | Three Months |
|--------------------|-----------|--------------|
| DJIA               | +4.70%    | +1.94%       |
| S&P 500 Index      | +4.87%    | +1.02%       |
| Russell 2000 Index | +4.19%    | +0.75%       |
| Russell 3000 Index | +5.00%    | +1.14%       |
| NAREIT Equity      | +5.86%    | +8.45%       |
| MSCI EAFE Index    | +5.43%    | +5.81%       |
| Lehman Agg Index   | -0.21%    | +0.27%       |
| CPI-U              | +0.61%    | +1.77%       |

### Market Overview

The US equities rallied strongly in April, as first quarter corporate earnings were generally in line, or better than market expectations. Markets were also encouraged by the further bank write-downs on mortgage-backed securities, taking the view that the credit crisis was being worked through. Investor risk appetite improved. Indeed, the main catalyst for improved investor sentiment was the decisive Federal Reserve action following the Bear Stearns collapse in March. From the market open on March 17<sup>th</sup> after the “Bear Stearns weekend” through April 30<sup>th</sup>, the S&P 500 returned 7.7%. On a year-to-date basis, equity returns remain in negative territory.

### Market Update - May

As of May 21<sup>st</sup>, the Dow is down 1.6%, the S&P 500 is up 0.4% and the NASDAQ is up 1.5% month-to-date. Bonds are up 0.3% month-to-date as of May 21<sup>st</sup>.

### Small Cap vs. Large Cap & Growth vs. Value

Large cap equities returned 5.1%, which outperformed small cap equities by 88 basis points. Over the past month, quarter, 1 year, and 3 years, large cap stocks have outperformed small cap stocks on a relative basis. From a style standpoint, large cap growth stocks outperformed value stocks by 38 basis points last month. Small cap growth stocks also outperformed its counterpart by 198 basis points. Both large cap and small cap growth stocks outperformed its value counterpart for the past month, quarter, 1 year, and 3 years.

### Global Market Overview

Global equity markets also rebounded in April. International equities, as measured by the MSCI EAFE Index, returned 5.43% last month. The MSCI EAFE value outperformed growth by 101 basis points for the month of April. In periods out to 3 years, growth has outperformed value.

## Valuation

The market value at the end of April was \$568 million, including \$58.8 million (market value) of non-endowed funds invested in the endowment.

## Performance

The endowment returned 3.8% in April, compared with the dynamic benchmark return of 2.7%. For the quarter (February – April), the endowment fund returned 2.7%, which outperformed the dynamic benchmark by 22 basis points. For the year ending April 30<sup>th</sup>, the endowment outperformed the benchmark by 74 basis points. The Dynamic Portfolio Benchmark is comprised of the S&P 500, MSCI EAFE, S&P 500 + 5%, ML T-Bills + 4%, ML T-Bills + 5%, CPI-U + 5%, LB 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 quarterly basis.

## Asset Allocation

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

| Asset Class     | Allocation<br>As of<br>04/30/08<br>\$000s | Allocation<br>As of<br>04/30/08<br>% | FY 2008<br>Target<br>Allocation<br>% | Long-term<br>Target<br>Allocation<br>% | Policy<br>Range<br>% |
|-----------------|---|--------------------------------------|--------------------------------------|--|----------------------|
| Equities        |   |                                      |                                      |  |                      |
| US Equity       | 143,982                                   | 25.3                                 | 29.0                                 | 25.0                                   | 20 - 50              |
| International   | 149,194                                   | 26.3                                 | 25.0                                 | 25.0                                   | 10 - 30              |
| Total Equities  | 293,176                                   | 51.6                                 | 54.0                                 | 50.0                                   | 30 - 80              |
| Fixed Income    | 84,151                                    | 14.8                                 | 15.0                                 | 15.0                                   | 15 - 30              |
| Absolute Return | 30,748                                    | 5.4                                  | 7.5                                  | 7.5                                    | 5 - 10               |
| Hedged Equities | 66,069                                    | 11.6                                 | 12.5                                 | 7.5                                    | 5 - 10               |
| Inflation Hedge | 76,493                                    | 13.5                                 | 10.0                                 | 10.0                                   | 5 - 15               |
| Alternative     | 2,639                                     | 0.5                                  | 1.0                                  | 10.0                                   | 0 - 10               |
| Investments     |   |                                      |                                      |  |                      |
| Cash            | 14,753                                    | 2.6                                  | 0.0                                  | 0.0                                    |                      |
| Total           | 568,029                                   | 100%                                 | 100%                                 | 100%                                   |                      |

Total outstanding commitments to alternatives are \$33.9 million. Funding for these commitments comes from new cash flows (gifts) and/or a reallocation among existing managers.