

The University of Houston System Endowment Fund



FISCAL YEAR 2009

APRIL 30, 2009

Market Overview

Equities were pulled higher in April on improved optimism toward the financial sector, as first quarter corporate profits generally matched or beat market expectations. The credit markets continued to improve and the big US banks should be able to raise the additional capital they need following the early May publication of the US Treasury/Fed "stress tests." The Fed continued to keep interest rates close to zero and left its various quantitative easing programs unchanged.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 15.5%, which outperformed large cap equities by 534 basis points for the month of April. 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 value stocks outperformed its counterpart for the month of April by 112 and 82 basis points, respectively. Furthermore, they both outperformed its growth counterpart for the 10 year period.

Global Market Overview

International equities also experienced a recovery during the month. International equities, as measured by the MSCI EAFE Index, returned 12.8% in April. Similar to our local equity markets, the MSCI EAFE value outperformed growth by 861 basis points for the month of April. Value has outperformed growth for all periods measured except for the 3 year period.

Valuation

The market value at the end of April was \$378 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 and calendar-year-to-date ending April 30, 2009. 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	+6.12%	+4.13%	+1.03%	-28.14%
Dynamic Portfolio Benchmark	+5.49%	+4.56%	+0.30%	-26.66%
DJIA	+7.56%	+3.05%	-5.86%	-34.19%
S&P 500 Index	+9.57%	+6.48%	-2.50%	-35.31%
Russell 1000 Index	+10.12%	+7.37%	-1.39%	-35.30%
Russell 2000 Index	+15.46%	+10.48%	-1.81%	-30.74%
NAREIT Equity	+31.02%	+7.95%	-10.73%	-48.21%
MSCI EAFE Index	+12.80%	+7.65%	-2.92%	-42.76%
BC Aggregate Bond Index	+0.48%	+1.49%	+0.59%	+3.84%
CPI-U	+0.25%	+0.99%	+1.43%	-0.74%

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	04/30/09	04/30/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	93,244	24.7	27.5	25.0	20 - 50
International	<u>74,455</u>	<u>19.7</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	167,699	44.4	52.5	50.0	30 - 80
Fixed Income	53,120	14.1	15.0	15.0	15 - 30
Absolute Return	27,002	7.1	7.5	7.5	5 - 10
Hedged Equities	42,475	11.2	12.5	7.5	5 - 10
Inflation Hedge	45,696	12.1	10.0	10.0	5 - 15
Alternatives	6,086	1.6	<1.0	10.0	0 - 10
Cash	<u>35,950</u>	<u>9.5</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>378,028</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$32.4 million at the end of April.