

The University of Houston System Endowment Fund



FISCAL YEAR 2009

DECEMBER 31, 2008

Market Overview

US equities rallied during December as continued bad economic and corporate data was offset by increased stimulus measures from the central bank and the government. The news about US government's decision to backstop Citigroup and the Federal Reserve's announcement that it would purchase Government Sponsored Enterprises (GSE)-guaranteed MBS certainly gave the stock market a boost. Other events that helped improve investors' confidence included the Federal Reserve's move to slash the fed funds rate to all-time lows, news of a proposed stimulus package from new US President Obama's administration, and anticipated government aid to US automakers.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 5.8%, which outperformed large cap equities by 420 basis points. Except for the 3 months period, small cap stocks have outperformed large cap stocks for all periods measured. From a style standpoint, large cap growth stocks outperformed its counterpart for the month of December by 42 basis points. However, large cap value stocks have outperformed its growth counterpart for all other periods measured. Similarly, small cap value stocks outperformed its growth counterpart for all periods measured.

Global Market Overview

Amid worsening economic news around the world, global equities, as measured by the MSCI EAFE Index, rose 6.0% in December to finish one of the worst years in decades on a positive note. The MSCI EAFE growth outperformed value by 75 basis points last month.

Valuation

The market value at the end of December was \$407 million, including \$39 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	+2.19%	-15.63%	-30.63%	-30.63%
Dynamic Portfolio Benchmark	+1.62%	-14.24%	-28.32%	-28.32%
DJIA	-0.39%	-18.39%	-31.93%	-31.93%
S&P 500 Index	+1.06%	-21.94%	-37.00%	-37.00%
Russell 1000 Index	+1.60%	-22.48%	-37.60%	-37.60%
Russell 2000 Index	+5.80%	-26.12%	-33.79%	-33.79%
NAREIT Equity	+16.39%	-38.80%	-37.73%	-37.73%
MSCI EAFE Index	+6.01%	-19.95%	-43.38%	-43.38%
BC Aggregate Bond Index	+3.73%	+4.58%	+5.24%	+5.24%
CPI-U	-1.03%	-3.91%	+0.09%	+0.09%

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	12/31/08	12/31/08	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	95,122	23.4	27.5	25.0	20 - 50
International	<u>73,878</u>	<u>18.2</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	169,000	41.6	52.5	50.0	30 - 80
Fixed Income	74,816	18.4	15.0	15.0	15 - 30
Absolute Return	26,307	6.5	7.5	7.5	5 - 10
Hedged Equities	50,341	12.4	12.5	7.5	5 - 10
Inflation Hedge	51,364	12.6	10.0	10.0	5 - 15
Alternatives	5,843	1.4	<1.0	10.0	0 - 10
Cash	<u>28,993</u>	<u>7.1</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>406,664</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$33.6 million at the end of December.