

The University of Houston System Endowment Fund



FISCAL YEAR 2008

FEBRUARY 29, 2008

Indices at a Glance – Feb '08

Index	% Change
DJIA	-2.75%
S&P 500 Index	-3.25%
Russell 2000 Index	-3.71%
Russell 3000 Index	-3.11%
NAREIT Equity	-3.56%
MSCI EAFE Index	+1.43%
Lehman Agg Index	+0.14%
CPI-U	+0.29%

Market Overview

Financial markets experienced another difficult month in February. Equities have weakened on more bad economic news, as well as on continued worries about the fall-out from the sub-prime mortgage problems and the credit crunch. The S&P 500 was down 3.3%, the Dow was down 2.8%, and the NASDAQ dropped 5.0% for the month of February. Market volatility remains elevated as a result of investor fears about the economic outlook.

Market Update - March

After JPMorgan Chase agreed to buy rival Bear Stearns in a deal that represents a stunning collapse for one of the world's largest and most venerable investment houses, the Fed urgently cut the discount rate to 3.25% from 3.5% on March 17th to contain a deepening credit crisis and restore confidence in panicked financial markets. Then on a scheduled FOMC meeting held the next day on March 18th, the Fed slashed both the fed funds rate and the discount rate by three-fourths of a percentage point to 2.25% and 2.5%, respectively. As of March 25th, the Dow is up 2.4%, the S&P 500 is up 1.9% and the NASDAQ is up 3.2% month-to-date. Bonds are up 0.1% month-to-date as of March 25th.

Small Cap vs. Large Cap & Growth vs. Value

Large cap equities returned -3.1%, which outperformed small cap equities by 65 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, growth stocks once again outperformed value stocks last month. Both large cap and small cap growth stocks outperformed its value counterpart for the past month, 1 year, and 3 years.

Global Market Overview

International equities, as measured by the MSCI EAFE Index, reported a nominal recovery of 1.4% during the month. The MSCI EAFE growth outperformed value by 259 basis points.

Valuation

The market value at the end of February was \$554 million, including \$60.7 million of non-endowed funds which were approved for investment in the fund at the November 2007 Board meeting. The \$19 million increase in February was mainly the result of a \$16.9 million transfer from non-endowed funds.

Performance

The endowment returned 0.2% in February, compared with the dynamic benchmark return of -0.1%. For the quarter (December – February), the endowment fund returned -5.2%, which underperformed the dynamic benchmark by 72 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 As of 02/29/08 \$000s	Allocation As of 02/29/08 %	FY 2008 Target Allocation %	Long-term Target Allocation %	Policy Range %
Equities					
US Equity	134,145	24.2	29.0	25.0	20 - 50
International	<u>142,212</u>	<u>25.7</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	276,357	49.9	54.0	50.0	30 - 80
Fixed Income					
Absolute Return	84,085	15.2	15.0	15.0	15 - 30
Hedged Equities	28,280	5.1	7.5	7.5	0 - 10
Inflation Hedge	66,228	12.0	12.5	7.5	0 - 10
Alternative	70,328	12.7	10.0	10.0	5 - 15
Investments	2,031	0.4	1.0	10.0	0 - 10
Cash	<u>26,292</u>	<u>4.7</u>	<u>0.0</u>	<u>0.0</u>	
Total	<u>553,601</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Total outstanding commitments to alternatives are \$34.7 million. Funding for these commitments comes from new cash flows (gifts) and/or a reallocation among existing managers.