

# The University of Houston System Endowment Fund



FISCAL YEAR 2009

FEBRUARY 28, 2009

## Market Overview

As economic woes continued and policy announcements out of Washington failed to provide much confidence, equity markets furthered their year-to-date losses in February. Even though the congress has passed a massive fiscal stimulus package, and the Obama administration has presented plans to stabilize both the financial system and the housing market, the lack of details, the number of unanswered questions of how to value toxic assets, and the lack of a united front in Washington has left both financial markets and economists unimpressed. Besides, terrible 2008 corporate profit results and dividend cuts also pulled equities lower. Major equity indices reached levels not seen in more than a decade.

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

For the month of February, small cap equities returned -12.2%, which underperformed large cap equities by 181 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 February by 584 and 354 basis points, respectively.

## Global Market Overview

International equity local market returns fared nominally better than U.S. equities; however, recent Dollar strength pulled returns for the MSCI EAFE in line with domestic equities. International equities, as measured by the MSCI EAFE Index, dropped 10.3% in February. The MSCI EAFE growth outperformed value by 189 basis points for the month of February.

## Valuation

The market value at the end of February was \$345 million, including \$35 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, quarter and calendar-year-to-date ending February 28, 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. A 9.5% cash allocation certainly helped performance.

Table 1	One Month	Three Months	Calendar YTD	One Year
<b>UHS Endowment</b>	<b>-4.64%</b>	<b>-6.11%</b>	<b>-8.01%</b>	<b>-32.95%</b>
Dynamic Portfolio Benchmark	-4.95%	-7.32%	-8.81%	-31.78%
DJIA	-11.24%	-19.23%	-18.92%	-40.58%
S&P 500 Index	-10.65%	-17.31%	-18.18%	-43.32%
Russell 1000 Index	-10.34%	-16.34%	-17.66%	-43.62%
Russell 2000 Index	-12.15%	-17.39%	-21.92%	-42.38%
NAREIT Equity	-20.82%	-23.80%	-34.53%	-57.29%
MSCI EAFE Index	-10.26%	-14.20%	-19.07%	-50.22%
BC Aggregate Bond Index	-0.38%	+2.43%	-1.26%	+2.06%
CPI-U	+0.50%	-0.11%	+0.93%	+0.24%

## 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	02/28/09	02/28/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	78,924	22.9	27.5	25.0	20 - 50
International	<u>60,870</u>	<u>17.6</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	139,794	40.5	52.5	50.0	30 - 80
Fixed Income	52,175	15.1	15.0	15.0	15 - 30
Absolute Return	26,699	7.7	7.5	7.5	5 - 10
Hedged Equities	41,559	12.0	12.5	7.5	5 - 10
Inflation Hedge	46,664	13.5	10.0	10.0	5 - 15
Alternatives	5,560	1.6	<1.0	10.0	0 - 10
Cash	<u>32,896</u>	<u>9.5</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>345,347</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

**Unfunded commitments to partnership investments were \$33.2 million at the end of February.**