

The University of Houston System Endowment Fund



FISCAL YEAR 2008

JANUARY 31, 2008

Indices at a Glance – Jan '08

Index	% Change
DJIA	-4.49%
S&P 500 Index	-6.00%
Russell 2000 Index	-6.82%
Russell 3000 Index	-6.06%
NAREIT Equity	-1.03%
MSCI EAFE Index	-9.24%
Lehman Agg Index	+1.68%
CPI-U	+0.50%

Market Overview

January proved to be a difficult month for the equity markets as investor fears mounted in response to mounting evidence of an economic slowdown or recession. For January, the S&P 500 was down 6.00%, the Dow was down 4.49%, and the NASDAQ lost 9.89%. Volatility spiked again in January and is expected to remain elevated given the pervasively high uncertainty in the market. The Bush Administration and Congress reacted quickly to the market condition by approving a fiscal stimulus package that is expected to pump approximately \$170 billion into the economy. The Fed also adopted an aggressive easing policy by cutting rates an accumulative 125 basis points to 3.0% in January.

Market Update - February

US equities have been struggling into positive territories this month. As of February 27th, the Dow is up 0.3%, the S&P 500 is up 0.2% and the NASDAQ is down 1.5% month-to-date. Bonds are down 1.0% month-to-date as of February 27th.

Economists started worrying stagflation might be coming back. Stagflation is when inflation rises and economic growth slows.

Small Cap vs. Large Cap & Growth vs. Value

The interest in large cap stocks continues as investors flee to higher quality equities in an environment of uncertainty. 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, the recent trend of growth stocks outperforming value stocks has reversed. Both large cap and small cap value stocks outperformed its growth counterpart by a significant margin for the past month and quarter.

Global Market Overview

World markets fell sharply in January. The MSCI EAFE growth returned -9.2% for the month, which outperformed value slightly by 7 basis points.

Valuation

The market value at the end of January was \$535 million, including \$43.8 million of non-endowed funds which were approved for investment in the fund at the November 2007 Board meeting. The \$9 million decline of market value when compared to December 2007 was the result of an underperforming market driven by worries over the US economic outlook, despite aggressive Fed easing and the Bush Administration's fiscal stimulus package.

Performance

The endowment returned -5.0% in January, compared with the dynamic benchmark return of -3.8%. For the quarter (November – January), the endowment fund returned -7.3%, which underperformed the dynamic benchmark by 144 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 01/31/08 \$000s	Allocation As of 01/31/08 %	FY 2008 Target Allocation %	Long-term Target Allocation %	Policy Range %
Equities					
US Equity	134,515	25.1	29.0	25.0	20 - 50
International	140,707	26.3	25.0	25.0	10 - 30
Total Equities	275,222	51.4	54.0	50.0	30 - 80
Fixed Income	83,909	15.7	15.0	15.0	15 - 30
Absolute Return	25,946	4.9	7.5	7.5	0 - 10
Hedged Equities	64,979	12.1	12.5	7.5	0 - 10
Inflation Hedge	67,651	12.6	10.0	10.0	5 - 15
Alternative	2,017	0.4	1.0	10.0	0 - 10
Investments					
Cash	15,421	2.9	0.0	0.0	
Total	535,145	100%	100%	100%	

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.