

The University of Houston System Endowment Fund



FISCAL YEAR 2008

JUNE 30, 2008

Market Overview

US equities fell sharply on higher oil prices and as the Fed became more concerned about inflation. Credit market stresses and the housing slump also pulled bank stocks down sharply, whilst the increased prospect of a global economic slowdown brought profit warnings from non-financial stocks.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned -7.7%, which outperformed large cap equities by 61 basis points. Except for the 1 year and 3 years period, small cap stocks have outperformed large cap stocks for periods measured. From a style standpoint, large cap growth stocks outperformed value stocks by 237 basis points in June. Small cap growth stocks also beat its counterpart by 364 basis points for the month. Large cap and small cap growth stocks outperformed its value counterpart for the past month, quarter, 1 year, and 3 years.

Global Market Overview

Global equity markets fell sharply in June. International equities, as measured by the MSCI EAFE Index, returned -8.2% last month. The MSCI EAFE growth outperformed value by 271 basis points for the month of June. In periods out to 3 years, growth has outperformed value similar to results in the US.

Valuation

The market value at the end of June was \$548 million, including \$56 million of non-endowed funds invested in the endowment.

Performance

	One Month	Three Months	Calendar YTD	One Year
UH Endowment	-5.09%	+0.06%	-5.91%	-3.07%
Dynamic Portfolio Benchmark	-4.13%	-0.77%	-4.72%	-3.09%
DJIA	-10.04%	-6.85%	-13.38%	-13.27%
S&P 500 Index	-8.43%	-2.73%	-11.91%	-13.12%
Russell 1000 Index	-8.31%	-1.89%	-11.20%	-12.36%
Russell 2000 Index	-7.70%	+0.58%	-9.37%	-16.19%
NAREIT Equity	-10.88%	-4.93%	-3.60%	-13.64%
MSCI EAFE Index	-8.18%	-2.25%	-10.96%	-10.61%
Lehman Agg. Index	-0.08%	-1.02%	+1.13%	+7.12%
CPI-U	+1.01%	+2.48%	+4.18%	+5.02%

The endowment returned -5.1% in June, compared with the dynamic benchmark return of -4.1%. For the quarter, the endowment fund returned 0.1%, which outperformed the dynamic benchmark by 83 basis points. Calendar year-to-date, the endowment has returned -5.9% compared with the portfolio benchmark of -4.7%. For the year ending June 30th, the endowment returned -3.1%, outperforming the benchmark by 2 basis points.

Asset Allocation

The portfolio's asset allocation is in compliance with the investment policy as indicated in the following table.

Asset Class	Asset Allocation 06/30/08 \$000s	Asset Allocation 06/30/08 %	FY 2008 Target Allocation %	Long-term Target Allocation %	Policy Range %
Equities					
US Equity	135,571	24.7	29.0	25.0	20 - 50
International	<u>136,462</u>	<u>24.9</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	272,033	49.6	54.0	50.0	30 - 80
Fixed Income	83,651	15.3	15.0	15.0	15 - 30
Absolute Return	31,034	5.7	7.5	7.5	5 - 10
Hedged Equities	65,697	12.0	12.5	7.5	5 - 10
Inflation Hedge	78,163	14.2	10.0	10.0	5 - 15
Alternatives	3,837	0.7	1.0	10.0	0 - 10
Cash	<u>13,996</u>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>	
Total	<u>548,411</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to alternative investments were \$37.3 million at the end of June.