

# The University of Houston System Endowment Fund



FISCAL YEAR 2008

MARCH 31, 2008

## Indices at a Glance – Mar '08

Index	One Month	Three Months
DJIA	+0.12%	-7.00%
S&P 500 Index	-0.43%	-9.45%
Russell 2000 Index	+0.42%	-9.90%
Russell 3000 Index	-0.59%	-9.52%
NAREIT Equity	+6.23%	+1.39%
MSCI EAFE Index	-1.05%	-8.91%
Lehman Agg Index	+0.34%	+2.17%
CPI-U	+0.87%	+1.66%

## Market Overview

US equities initially fell on bad economic data and banking sector worries following the Bear Stearns buyout. However, central bank liquidity injections restored some confidence and financial stocks led a US equities market recovery from mid-month. Financial stocks have stayed volatile but have led the recovery on the view that the banks are making progress through the credit crisis – by accelerating write-downs, and through capital injections.

## Market Update - April

As of April 22<sup>nd</sup>, the Dow is up 3.8%, the S&P 500 is up 4.2% and the NASDAQ is up 4.3% month-to-date. Bonds are down 0.4% month-to-date as of April 22<sup>nd</sup>.

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

Large cap equities returned -0.7%, which underperformed small cap equities by 110 basis points. Over the past quarter, 1 year, and 3 years, large cap stocks have outperformed small cap stocks on a relative basis. From a style standpoint, large cap growth stocks outperformed value stocks slightly by 14 basis points last month; while small cap value stocks outperformed its counterpart by 209 basis points. Both large cap and small cap growth stocks outperformed its value counterpart for 1 year, and 3 years; however, they both comparatively underperformed for the past quarter, 5 years, and 10 years.

## Global Market Overview

Global equity markets experienced another disappointing month in March. International equities, as measured by the MSCI EAFE Index, dropped 1.1% last month. The MSCI EAFE value outperformed growth by 98 basis points, reversing the trend over the past 3 years.

## Valuation

The market value at the end of March was \$547 million, including \$60.7 million (cost basis) of non-endowed funds invested in the endowment.

## Performance

The endowment returned -1.3% in March, compared with the dynamic benchmark return of -0.1%. For the quarter (January – March), the endowment fund returned -6.1%, which underperformed the dynamic benchmark by 209 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 03/31/08 \$000s	Allocation As of 03/31/08 %	FY 2008 Target Allocation %	Long-term Target Allocation %	Policy Range %
Equities					
US Equity	136,727	25.0	29.0	25.0	20 - 50
International	<u>140,760</u>	<u>25.8</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	277,487	50.8	54.0	50.0	30 - 80
Fixed Income					
Absolute Return	84,048	15.4	15.0	15.0	15 - 30
Hedged Equities	30,412	5.6	7.5	7.5	0 - 10
Inflation Hedge	64,439	11.8	12.5	7.5	0 - 10
Alternative	73,556	13.4	10.0	10.0	5 - 15
Investments	2,375	0.4	1.0	10.0	0 - 10
Cash	<u>14,299</u>	<u>2.6</u>	<u>0.0</u>	<u>0.0</u>	
Total	<u>546,616</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Total outstanding commitments to alternatives are \$34.3 million. Funding for these commitments comes from new cash flows (gifts) and/or a reallocation among existing managers.