

The University of Houston System Endowment Fund



FISCAL YEAR 2009

MARCH 31, 2009

Market Overview

The details of the US Treasury's latest plan to take toxic assets off US bank balance sheets were cheered by the markets. In addition to the central bank's quantitative easing measures, increased risk appetite and optimism that the worst of the banking crisis has now passed have all contributed to the impressive performance of US equities in March. Real estate investment trusts stabilized slightly but remain among the worst-performing sectors year-to-date.

Small Cap vs. Large Cap & Growth vs. Value

Small cap equities returned 8.9%, which outperformed large cap equities slightly by 18 basis points for the month of March. Except for the 1 month, 1 year and 10 year 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 March by 37 and 10 basis points, respectively. Furthermore, they both outperformed its value counterpart for the past quarter, 1 year, and 3 year period.

Global Market Overview

Equities rose broadly around the world. International equities, as measured by the MSCI EAFE Index, returned 6.3% in March. Unlike our local equity markets, the MSCI EAFE growth trailed value by 144 basis points for the month of March. Growth has outperformed value for the past quarter, 1 year, 3 year, and 5 year period.

Valuation

The market value at the end of March was \$357 million, including \$36 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment fund trailed the dynamic portfolio benchmark for all periods measured ending March 31, 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.

Table 1	One Month	Three Months	Calendar YTD	One Year
UHS Endowment	+3.49%	-5.05%	-5.05%	-29.72%
Dynamic Portfolio Benchmark	+4.27%	-4.91%	-4.91%	-27.97%
DJIA	+7.94%	-12.48%	-12.48%	-35.94%
S&P 500 Index	+8.76%	-11.01%	-11.01%	-38.09%
Russell 1000 Index	+8.75%	-10.45%	-10.45%	-38.27%
Russell 2000 Index	+8.93%	-14.95%	-14.95%	-37.50%
NAREIT Equity	+4.06%	-31.87%	-31.87%	-58.16%
MSCI EAFE Index	+6.34%	-13.94%	-13.94%	-46.51%
BC Aggregate Bond Index	+1.39%	+0.12%	+0.12%	+3.13%
CPI-U	+0.24%	+1.18%	+1.18%	-0.38%

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 Allocation	Long-term Target Allocation	Policy Range
Asset Class	03/31/09	03/31/09	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	84,770	23.7	27.5	25.0	20 - 50
International	<u>65,482</u>	<u>18.3</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	150,251	42.1	52.5	50.0	30 - 80
Fixed Income	52,717	14.8	15.0	15.0	15 - 30
Absolute Return	26,668	7.5	7.5	7.5	5 - 10
Hedged Equities	41,687	11.7	12.5	7.5	5 - 10
Inflation Hedge	45,919	12.9	10.0	10.0	5 - 15
Alternatives	5,948	1.7	<1.0	10.0	0 - 10
Cash	<u>33,886</u>	<u>9.5</u>	<u>2.5</u>	<u>0.0</u>	
Total	<u>357,075</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$32.7 million at the end of March.