

# The University of Houston System Endowment Fund



FISCAL YEAR 2008

MAY 31, 2008

## Market Overview

The equities rally continued in May as the credit crisis stabilized and reasonable corporate earnings growth were reported. Investors were encouraged by key economic indicators that suggested the economy was still growing, albeit at a sluggish pace. Headlines continued to focus on surging oil prices and the anxiety over inflation, economic growth, and the consumer's capacity to spend.

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

Small cap equities returned 4.6%, which outperformed large cap equities by 276 basis points. Except for the one year period, small cap stocks have outperformed or equaled large cap stocks for periods measured. From a style standpoint, large cap growth stocks outperformed value stocks by 383 basis points in May. Small cap growth stocks also beat its counterpart by 224 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 posted modest gains in May. International equities, as measured by the MSCI EAFE Index, returned 0.97% last month. The MSCI EAFE growth outperformed value by 271 basis points for the month of May. In periods out to 3 years, growth has outperformed value similar to results in the US.

## Valuation

The market value at the end of May was \$577 million, including \$59.5 million of non-endowed funds invested in the endowment.

## Performance

	One Month	Three Months	Calendar YTD	One Year
<b>UH Endowment</b>	+1.63%	+4.10%	-0.92%	+1.54%
Dynamic Portfolio Benchmark	+0.70%	+3.37%	-0.71%	-0.40%
DJIA	-1.10%	+3.66%	-3.71%	-5.03%
S&P 500 Index	+1.30%	+5.77%	-3.81%	-6.70%
Russell 1000 Index	+1.83%	+6.27%	-3.15%	-6.25%
Russell 2000 Index	+4.59%	+9.43%	-1.81%	-10.53%
NAREIT Equity	+0.77%	+13.32%	+8.16%	-11.89%
MSCI EAFE Index	+0.97%	+5.33%	-3.03%	-2.53%
Lehman Agg. Index	-0.73%	-0.60%	+1.21%	+6.89%
CPI-U	+0.84%	+2.33%	+3.14%	+4.18%

The endowment returned 1.6% in May, compared with the dynamic benchmark return of 0.7%. For the quarter, the endowment fund returned 4.1%, which outperformed the dynamic benchmark by 73 basis points. Calendar year-to-date, the endowment has returned -0.92% compared with the portfolio benchmark of -0.71%. For the year ending May 31<sup>st</sup>, the endowment returned 1.54%, outperforming the benchmark by 194 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 05/31/08 \$000s	Asset Allocation 05/31/08 %	FY 2008 Target Allocation %	Long-term Target Allocation %	Policy Range %
Equities					
US Equity	147,592	25.5	29.0	25.0	20 - 50
International	<u>151,096</u>	<u>26.2</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	298,688	51.7	54.0	50.0	30 - 80
Fixed Income	83,667	14.5	15.0	15.0	15 - 30
Absolute Return	31,102	5.4	7.5	7.5	5 - 10
Hedged Equities	68,051	11.8	12.5	7.5	5 - 10
Inflation Hedge	78,415	13.6	10.0	10.0	5 - 15
Alternatives	3,192	0.5	1.0	10.0	0 - 10
Cash	<u>14,245</u>	<u>2.5</u>	<u>0.0</u>	<u>0.0</u>	
Total	<u>577,360</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to alternative investments stood at \$38.2 million at the end of May.