The University of Houston System Endowment Fund

FISCAL YEAR 2009 | NOVEMBER 30, 2008

Market Overview

Domestic equity performance posted substantial losses for the month of November, although not to the same degree as the month prior. Markets fluctuated wildly as investors digested news about the presidential election and benign inflation data, as well as deteriorating data from the retail, housing, and manufacturing sectors. Besides, it is official that the US economy is formally in recession. At the end of November, the Business Cycle Dating Committee of the National Bureau of Economic Research (NBER) announced that the current recession started in January 2008. So we are already four quarters into a recession.

Small Cap vs. Large Cap & Growth vs. Value

November was another difficult and highly volatile month for the equity markets. Large cap equities returned -7.6%, which outperformed small cap equities by 427 basis points, reaffirming the current risk aversion of investors. From a style standpoint, both large cap and small cap value stocks outperformed its counterpart for the month of November by 78 and 52 basis points, respectively. Large cap and small cap value stocks outperformed its growth counterpart for all periods measured.

Global Market Overview

International equities fell in November as economic news from around the world continued to deteriorate. In response to the global economic slowdown, many foreign governments recently took fiscal and monetary policy action by reducing interest rates and announcing stimulus plans. This contributed to international markets faring marginally better than domestic equities. Still, international equities have fallen over 45% year-to-date as measured by the MSCI EAFE index.

Valuation

The market value at the end of November was $398 million, including $39 million of non-endowed funds invested in the endowment.

Performance

As indicated in table 1 below, the endowment's performance lagged the dynamic portfolio benchmark for the month, quarter, calendar-year-to-date and 1-year ending November 30, 2008. To get a more accurate statement of how the endowment fund is performing, we have adopted a more comprehensive and representative benchmark provided by Cambridge Associates. The new 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, 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 monthly basis.

Table 1	One Month	Three Months	Calendar YTD	One Year
UHS Endowment	-4.23%	-25.43%	-32.11%	-32.41%
Dynamic Portfolio Benchmark	-3.04%	-23.15%	-29.46%	-29.82%
DJIA	-4.86%	-22.85%	-31.66%	-32.11%
S&P 500 Index	-7.18%	-29.65%	-37.66%	-38.09%
Russell 1000 Index	-7.56%	-30.97%	-38.58%	-38.98%
Russell 2000 Index	-11.83%	-35.73%	-37.42%	-37.46%
NAREIT Equity	-23.06%	-47.52%	-46.50%	-49.19%
MSCI EAFE Index	-5.41%	-35.41%	-46.59%	-47.79%
Lehman Agg. Index	+3.25%	-0.54%	+1.45%	+1.74%
CPI-U	-1.92%	-3.04%	+1.14%	+1.07%

Asset Allocation

The portfolio's asset allocation is in compliance with the investment policy as indicated in table 2.

Table 2 Asset Class	Asset Allocation 11/30/08	Asset Allocation 11/30/08	FY 2009 Target Allocation	Long-term Target Allocation	Policy Range
	$000s	%	%	%	%
Equities					
US Equity	93,292	23.5	27.5	25.0	20 - 50
International	70,445	17.7	25.0	25.0	10 - 30
Total Equities	163,737	41.2	52.5	50.0	30 - 80
Fixed Income	81,668	20.6	15.0	15.0	15 - 30
Absolute Return	26,725	6.7	7.5	7.5	5 - 10
Hedged Equities	51,005	12.8	12.5	7.5	5 - 10
Inflation Hedge	50,058	12.6	10.0	10.0	5 - 15
Alternatives	5,552	1.4	<1.0	10.0	0 - 10
Cash	18,803	4.7	2.5	0.0	
Total	397,548	100%	100%	100%	

Unfunded commitments to partnership investments were $34.1 million at the end of November.