

# The University of Houston System Endowment Fund



FISCAL YEAR 2009

OCTOBER 31, 2008

## Market Overview

Over the past two months, the financial market crisis has evolved into a full-scale economic crisis. Equities remained under severe pressure for most of October as the banking crisis came to a head and the markets factored in the prospect of global recession. Equities were very volatile, but improved in late October as the financial crisis stabilized. Nevertheless, equities were still down sharply in October as a whole. The S&P 500 lost almost 17% in October, the second worst month since 1940; just behind another infamous October – in 1987.

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

Small cap equities returned -20.8%, which underperformed large cap equities by 334 basis points for the month of October. Except for the 1 month and 3 months period, small cap stocks have outperformed large cap stocks for all periods measured. From a style standpoint, both large cap and small cap value stocks outperformed its counterpart for the month of October by 30 and 172 basis points, respectively. Large cap and small cap value stocks outperformed its growth counterpart for all periods measured.

## Global Market Overview

International equities followed up a miserable September with even worse performance in October. International equities, as measured by the MSCI EAFE Index, returned -20.2% for October. The MSCI EAFE growth outperformed value by 78 basis points last month. Except for the 3 months, 5 years and 10 years period, MSCI EAFE growth has outperformed its counterpart for all periods measured.

## Valuation

The market value at the end of October was \$415 million, including \$42 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 October 31, 2008. International equities, real estate securities and inflation hedges, were the major contributors to the underperformance of the endowment for the periods measured. The endowment's asset allocation has protected some capital in this difficult market as the broader U.S. and international equity markets are down more than the endowment for the 1-month and 1-year period.

Table 1	One Month	Three Months	Calendar YTD	One Year
<b>UHS Endowment</b>	<b>-13.73%</b>	<b>-22.97%</b>	<b>-29.11%</b>	<b>-30.85%</b>
Dynamic Portfolio Benchmark	-8.81%	-14.45%	-19.05%	-20.84%
DJIA	-13.89%	-17.44%	-28.18%	-31.24%
S&P 500 Index	-16.80%	-23.11%	-32.84%	-36.10%
Russell 1000 Index	-17.46%	-24.30%	-33.55%	-36.80%
Russell 2000 Index	-20.80%	-24.48%	-29.02%	-34.16%
NAREIT Equity	-31.67%	-30.29%	-30.47%	-39.96%
MSCI EAFE Index	-20.18%	-34.49%	-43.54%	-46.62%
Lehman Agg. Index	-2.36%	-2.76%	-1.74%	+0.30%
CPI-U	-1.01%	-1.54%	+3.11%	+3.66%

## 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	Long-term Target	Policy Range
Asset Class	10/31/08	10/31/08	Allocation	Allocation	Range
	\$000s	%	%	%	%
Equities					
US Equity	102,128	24.6	29.0	25.0	20 - 50
International	<u>75,791</u>	<u>18.2</u>	<u>25.0</u>	<u>25.0</u>	<u>10 - 30</u>
Total Equities	177,919	42.8	54.0	50.0	30 - 80
Fixed Income	79,614	19.2	15.0	15.0	15 - 30
Absolute Return	27,770	6.7	7.5	7.5	5 - 10
Hedged Equities	52,330	12.6	12.5	7.5	5 - 10
Inflation Hedge	58,283	14.0	10.0	10.0	5 - 15
Alternatives	5,351	1.3	1.0	10.0	0 - 10
Cash	<u>14,208</u>	<u>3.4</u>	<u>0.0</u>	<u>0.0</u>	
Total	<u>415,476</u>	<u>100%</u>	<u>100%</u>	<u>100%</u>	

Unfunded commitments to partnership investments were \$34.5 million at the end of October.