The University of Houston System Endowment Fund

FISCAL YEAR 2009 | SEPTEMBER 30, 2008

Market Overview

Many financial markets recorded dramatic drops during the month of September. Seized credit markets, fears of a global slowdown, and uncertainty regarding government proposals to help the economy all contributed to a record spike in volatility. On September 7th, the government placed Fannie Mae and Freddie Mac under federal conservatorship. The Treasury has promised to provide very significant financial support for the agencies if they need it. Also during this month, AIG, Lehman Brothers, Merrill Lynch, Washington Mutual, and Wachovia were either rescued by the government or agreed to be purchased by stronger partners. Markets became increasingly focused on proposed US legislation intended to shore up bank balance sheets and boost investor confidence.

Small Cap vs. Large Cap & Growth vs. Value

Large cap equities continued to lag smaller caps for the month of September. 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 September by 423 and 661 basis points, respectively.

Global Market Overview

International equities were hit particularly hard in September, and those losses were exacerbated by the flight to quality that drove a rally in the Dollar. International equities, as measured by the MSCI EAFE Index, returned -14.5% for September. Similar to the U.S. equity markets, the MSCI EAFE value outperformed growth on a relative basis by 121 basis points for the month of September.

Valuation

The market value at the end of September was $480 million, including $50 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 September 30, 2008. International equities, hedged equities 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-year period.

Table 1	One Month	Three Months	Calendar YTD	One Year
UHS Endowment	-9.51%	-12.72%	-17.83%	-17.41%
Dynamic Portfolio Benchmark	-5.82%	-6.89%	-11.23%	-11.61%
DJIA	-5.83%	-3.71%	-16.59%	-19.85%
S&P 500 Index	-8.91%	-8.37%	-19.29%	-21.98%
Russell 1000 Index	-9.53%	-9.35%	-19.50%	-22.10%
Russell 2000 Index	-7.97%	-1.11%	-10.38%	-14.48%
NAREIT Equity	-0.19%	+5.55%	+1.75%	-11.15%
MSCI EAFE Index	-14.46%	-20.56%	-29.26%	-30.50%
Lehman Agg. Index	-1.34%	-0.49%	+0.63%	+3.65%
CPI-U	-0.14%	-0.01%	+4.16%	+4.94%

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 09/30/08	Asset Allocation 09/30/08	FY 2009 Target Allocation	Long-term Target Allocation	Policy Range
	$000s	%	%	%	%
Equities					
US Equity	123,658	25.7	29.0	25.0	20 - 50
International	101,693	21.2	25.0	25.0	10 - 30
Total Equities	225,351	46.9	54.0	50.0	30 - 80
Fixed Income	82,254	17.1	15.0	15.0	15 - 30
Absolute Return	29,253	6.1	7.5	7.5	5 - 10
Hedged Equities	56,121	11.7	12.5	7.5	5 - 10
Inflation Hedge	68,805	14.3	10.0	10.0	5 - 15
Alternatives	5,184	1.1	1.0	10.0	0 - 10
Cash	13,314	2.8	0.0	0.0	
Total	480,282	100%	100%	100%	

Unfunded commitments to partnership investments were $35.0 million at the end of September.