

# THE RICE UNIVERSITY FISCAL YEAR 2015



# ENDOWMENT

## Dear Supporters and Friends,

Rice University is built on a foundation of generosity. Ever since William Marsh Rice established the Rice Institute with a bequest from his will, we have relied upon the philanthropic engagement of our community to keep this university growing, advancing and rising in the ranks of the nation's top institutes for higher education. We would not be where we are today without your support.

In that spirit, we present to you a report on the performance of the Rice Endowment during fiscal year 2015. The endowment continues to be a vital source of funding for the university, especially as it matures and evolves with the changing markets. We are pleased with the health of our endowment and its tremendous impact on our students, faculty and community year after year.

With the growth of the endowment has come tangible growth on campus. We recently celebrated a successful launch and first year of the Initiative for Students, Rice's three-year volunteer engagement, experiential learning and fundraising effort, which paved the way for a remarkable gift from John '73 and Ann '75 Doerr to establish the Doerr Institute for New Leaders. With Ret. Brig. Gen. Tom Kolditz at the helm, the institute will give students the unique opportunity to put leadership development into action.

This fall, President Leebron and our new Provost, Dr. Marie Lynn Miranda, announced plans to invest in strategic initiatives to strengthen the university's research competitiveness, establish a world-renowned program in data sciences and enrich our molecular nanotechnology research. Recently, we also welcomed Alison Weaver, the Suzanne Deal Booth Director of the Moody Center for the Arts, to facilitate interdisciplinary work and local and international arts collaborations, enhancing Rice's increased commitment to the arts.

None of these innovations would be possible without the generosity of our donors, and we are enormously grateful to you for ensuring Rice's ongoing success by supporting an endowment. Thank you for your considerable investment in Rice and its exciting future.

Sincerely,

**Darrow Zeidenstein**  
Vice President for Development and Alumni Relations

**Allison Thacker**  
Chief Investment Officer and President, Rice Management Company  
Vice President for Investments and Treasurer, Rice University



### Current Year Performance

Rice University's \$5.6 billion endowment returned 4.2%, net of fees, for the fiscal year ended June 30, 2015. While the past several years' markets have seen a very strong recovery post-financial crisis, fiscal year 2015 was a very challenging and low return environment. The endowment's return bested a passive investing benchmark and the preliminary average return of colleges and universities. The endowment's return was negatively impacted by a steep decline in energy and commodity prices. Approximately 10% of the endowment is invested in energy and natural resources. Conversely, the endowment produced strong returns in venture capital, long/short equity hedge funds, and real estate. Our investment team is starting to see some exciting opportunities emerge particularly within emerging markets and the natural resources sector.

	(\$ millions)
Market Value at June 30, 2014	\$5,528
Endowment investment returns	228
Endowment gifts and transfers	50
Endowment spending	(249)
Market Value at June 30, 2015	\$5,557

### Rice Management Company (RMC)

The RMC supports the Rice University mission through enlightened stewardship of the University's financial resources. We seek to provide sufficient, stable and growing endowment cash distributions to support the core endeavors of the University. We connect the University's long-term capital with world-class partners and projects that can compound that capital over time.

The endowment employs an actively managed investment strategy. We partner with third party investment managers and internally manage a portfolio of direct real estate, oil and gas royalties, timberland and operating businesses.



The RMC team consists of 20 employees, half of whom are dedicated to investments and the other half to endowment operations. Our investments and endowment operations teams bring decades of investment management expertise across diversified industries and financial specialties. Through disciplined research and due diligence, we assess and pursue investment strategies that are aligned with the long-term risk/reward profile of the endowment.



### Asset Allocation

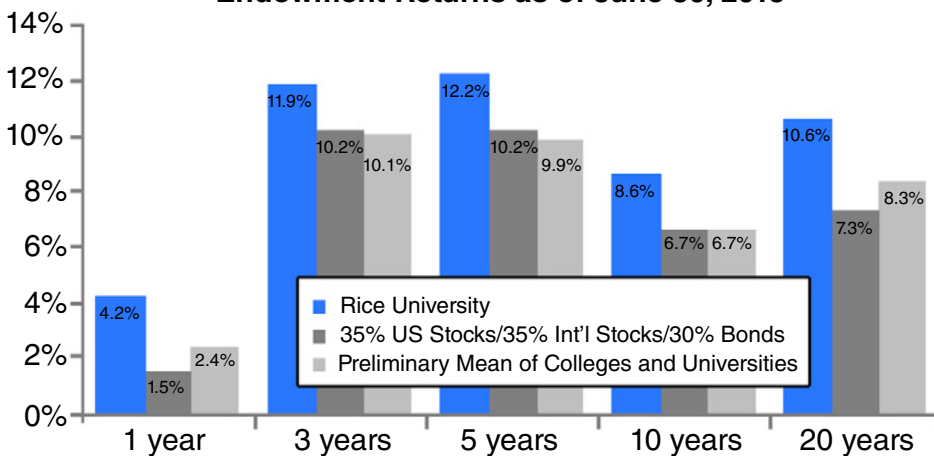
Rice's endowment is diversified across many asset classes and is actively managed by more than 100 investment managers. Asset allocation and diversification are the heart of the investment process and are critical to managing the endowment through different economic cycles. Manager selection is vital to superior performance and Rice continues to seek the best investment managers in each asset class. To support the in-perpetuity status of the endowment, we believe a long-term portfolio should be: equity-oriented, diversified, invested in real assets (real estate / natural resources), value focused and valuation sensitive, fee sensitive, and partnered with managers who have a real investment edge.



### Investment Performance

The Rice investment staff seeks out the best external investment managers to manage the endowment's assets. Rice seeks to find managers with exceptional investment skills, a proven investment track record, a strong investment team, and a clear and disciplined investment philosophy. Over the long-term, Rice expects that collectively and net of fees, these managers will earn the endowment a return in excess of the return on passive investments in stock and bond funds. This strategy has benefitted Rice and has consistently earned returns in excess of these indices. Rice has also been able to comfortably outperform the mean return of the Cambridge Associates Colleges and Universities survey group which consists of 159 institutions.

**Endowment Returns as of June 30, 2015**



Asset Class	Target Allocation
Publicly Traded Equities	33%
Alternative Investments Strategies	16%
Venture Capital and Private Equity	16%
Real Estate	10%
Energy and Natural Resources	10%
Opportunistic	7%
High Grade U.S. Bonds and Cash	6%
Timber	2%
<b>Total</b>	<b>100%</b>





## Impact of Endowment Gifts

In 1904, The Rice Institute (now Rice University) received a founding endowment of \$4.6 million from the estate of William Marsh Rice. Today, Rice's total endowment stands at \$5.6 billion. The endowment has grown to this level as a result of two primary factors: strong investment returns and the continued addition of new gifts from donors. New endowment gifts ensure perpetual support for Rice's mission and help provide for program enhancements over time. The table to the right shows three actual need based scholarship endowments established at Rice at different times over the past 75 years, the initial gift that established the endowment, the cumulative amount of distributions they have funded since their inception and the ending value at June 30, 2015.

## What type of funds make up the Rice Endowment?

The endowment is a consolidated investment pool composed of a large unrestricted endowment (approximately 51% of the total endowment or \$2.8 billion) and over 1,700 funds with restricted or designated purposes (approximately 49% of the total endowment or \$2.7 billion). Accounting for the pool operates much like that of a mutual fund as each individual fund is credited with a proportionate share of the gains and losses earned by the pool.

	Endowment A	Endowment B	Endowment C
Year Established	1940	1960	1980
Original Gift	\$10,000	\$5,646	\$85,070
FY2015 Distribution	13,163	3,678	31,004
Cumulative Distributions	223,923	67,942	533,527
6/30/15 Market Value	\$287,073	\$80,138	\$675,188

Endowment A established 75 years ago has been able to pay out 22 times its original gift value and still has a remaining market value of \$287,073 at June 30, 2015, more than 28 times the original gift amount.

As a donor, you may have established a scholarship fund, an endowed chair, an endowment that supports student athletes or one of many other types of endowments. The 1,700+ endowments that make up the ~49% of the total endowment that is restricted, consists of several different types of endowments which are summarized below.

Type of Endowment	June 30, 2015 Value (\$ in millions)	Number of Endowment Funds
Chair/Professorship	\$1,054	163
Departmental (Lectureships, awards, department support)	574	363
Undergraduate Scholarships	532	683
Maintenance (for buildings and grounds)	288	38
Graduate Fellowships	125	190
Residential College Support	72	36
Athletics (scholarships and department support)	48	220
Library	42	73
Total Restricted Endowment	\$ 2,735	1,766
Unrestricted Endowment	\$2,822	
Total Rice Endowment	\$5,557	



## Contact Us

If you have a question regarding this report, please contact us at [stewardship@rice.edu](mailto:stewardship@rice.edu) or 713-348-3072.