



The Rice University Endowment Fiscal Year 2008 Update

In a year that saw most major stock indices experience double-digit declines, Rice's endowment was able to post a positive return of 2 percent for the fiscal year ending on June 30, 2008. Strong performance in Rice's energy and natural resources investments, as well as venture capital, fixed income and hedge funds, bolstered the return this year. Over the last five years, the endowment has returned an average of 13.6 percent and an average of 13 percent over the last 20 years.

The endowment ended the fiscal year valued at \$4.61 billion compared to \$4.67 billion at the start of the fiscal year. Table 1 below shows the impact that investment returns, gifts, and distribution have on the overall endowment value.

	Change in Value (\$millions)
Market Value @ June 30, 2007	\$4,670
Endowment investment returns	99
Endowment gifts	42
Endowment distribution (spending)	(201)
Market Value @ June 30, 2008	\$4,610

Table 1

This table illustrates an important point: the change in endowment value is not driven only by investment returns. The endowment was increased from investment returns and additional gifts, but after subtracting endowment distribution, the ending value was down for the year. The endowment plays a critical role in the budget structure of Rice with endowment distribution providing almost half of the university's operating revenues for fiscal year 2008. Tuition, sponsored research and current gifts provide most of the remaining support.

The endowment is a consolidated investment pool composed of a large, unrestricted endowment (approximately 55 percent of the total endowment or

\$2.56 billion) and over 1,400 funds with restricted or designated purposes (approximately 45 percent of the total endowment or \$2.05 billion). Accounting for the pool operates much like that of a mutual fund with each individual fund being credited for a proportionate share of the gains and losses earned by the pool. Chart 1 below categorizes the purposes of these 1,400+ restricted and designated endowment funds and shows both the number of funds and the market value of the funds as of June 30, 2008.

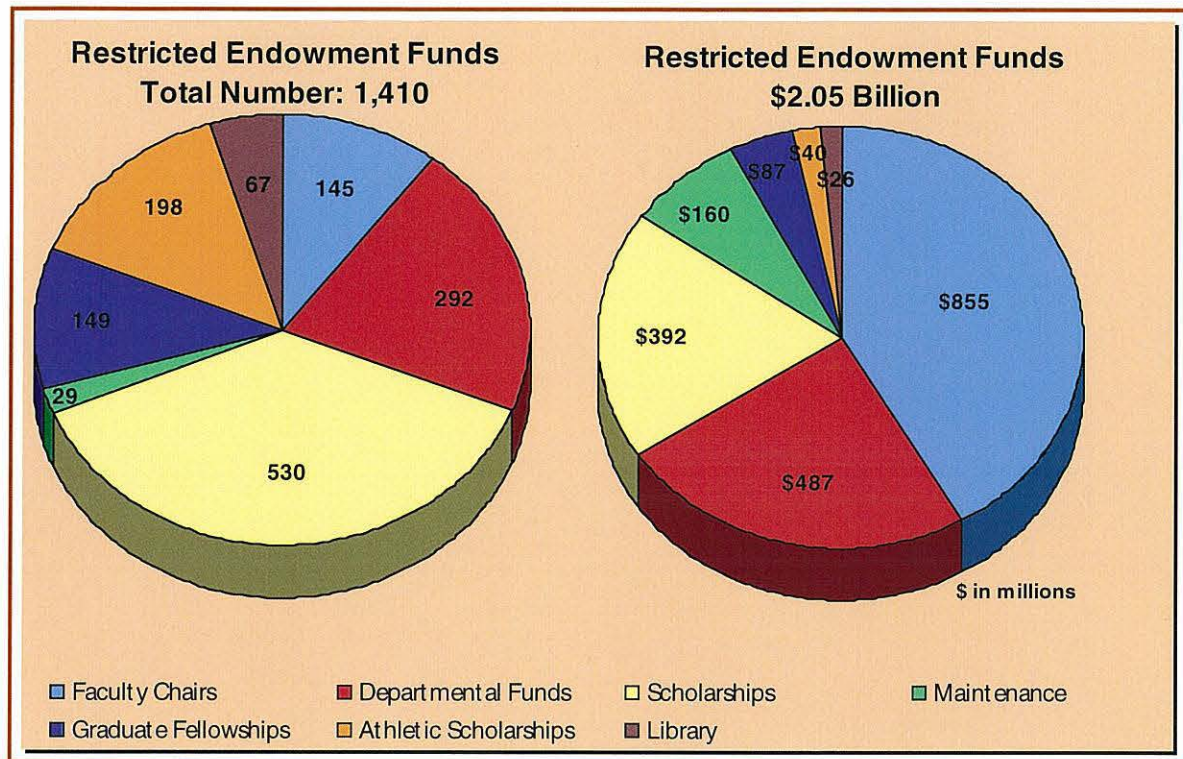


Chart 1

Recently we have witnessed some unprecedented events in the financial markets. We have seen significant point drops in the public equity indices, decreasing access to credit, large banks failing and being acquired and the passage of the Emergency Economic Stabilization Act of 2008 (i.e., the Rescue Plan) by Congress in October. This Act provides up to \$700 billion to help stabilize the U.S. financial system. Certainly, Rice has not been immune to the turbulence in the markets. But it is in times like these that a well thought-out and implemented asset allocation strategy can help weather these rough financial storms. The Rice endowment portfolio is diversified among many asset classes with over 100 investment manager relationships. This asset allocation and diversification is the cornerstone of the investment process and is critical to managing the endowment through these challenging times.

Rice's endowment earnings distribution policy governs the rate at which funds are released from the endowment for current spending. The policy attempts to balance the current resource needs of Rice with the long-term objectives of preserving the purchasing power of the endowment for future generations and ensuring reasonable year-over-year stability of future endowment payouts. In

summary, the policy provides for an endowment spending level between 4 percent and 6.5 percent of the 3-year average endowment market value, with a targeted range of 4.5 percent to 5.5 percent in the intermediate term. Using a 3-year average market value in the calculation helps to dampen the volatility in the annual endowment distribution amount. Naturally, the spending rate will be lower in times of increasing market values and higher in times of decreasing market values. This policy bears fruit in times of market volatility like the one we are currently experiencing. Chart 2 below shows Rice's endowment spending rate as a percentage of the 3-year average market value over the last 10 years.

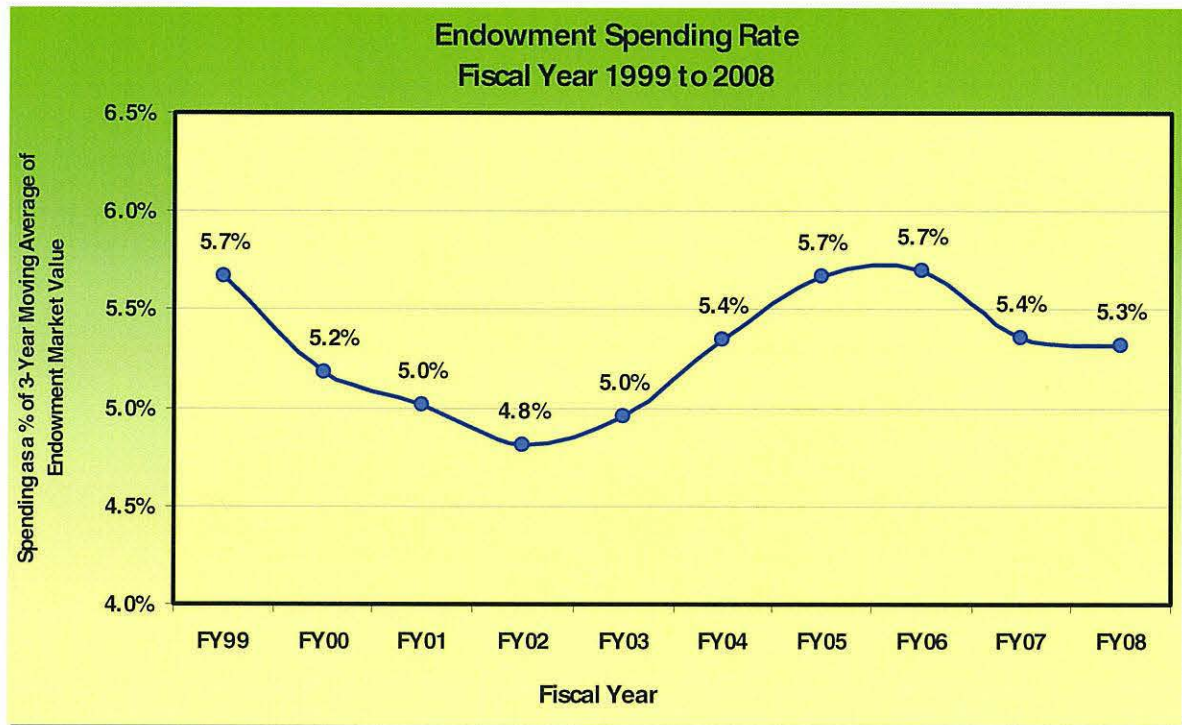


Chart 2

The Rice endowment historically ranks in the top 20 endowments of private research universities (by market value) in the country. The endowment funds are the permanent capital of the university, established to provide a perpetual source of revenue for current operations and specific capital needs.