The Rice University Endowment
Fiscal Year 2009 Update

Now that fiscal year 2009 has come and gone, we can reflect on one of the most challenging investment environments we have seen in a lifetime. The fiscal year 2009 investment return for the Rice Endowment was a loss of 18%. Published investment returns from other private universities indicate that Rice's performance is in the top quartile among large endowments for this fiscal year. The Rice endowment portfolio is actively managed and is diversified across ten 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 different economic cycles. Table 1 below shows Rice's return and the returns of selected indices for this period.

	Fiscal Year 2009
Rice Endowment Pool	**-18%**
Barclays Capital Aggregate Index (bonds)	6%
S&P 500 (US stocks)	-26%
MSCI AC World ex US (international stocks)	-31%
Stock / Bond Blended Portfolio (35% US Stocks, 35% international stocks, 30% bonds)	-18%

Table 1

While the fiscal 2009 return of -18% is a significant one-year loss, the investment portfolio is managed with a longer time horizon. Importantly, over the 20-year period ended June 30, 2009, Rice has achieved average annualized returns of 11% as compared to 8% for the S&P 500 and 7% for the Barclays Capital bond index for the same period.

The endowment ended the fiscal year valued at $3.61 billion compared to $4.61 billion at the start of the fiscal year. Table 2 below shows the impact that investment returns, gifts, and distribution have on the overall endowment value.

	Change in Value ($millions)
Market Value @ June 30, 2008	$4,610
Endowment investment returns	(837)
Endowment gifts	55
Endowment distribution (spending)	(215)
Market Value @ June 30, 2009	$3,613

Table 2

The endowment has always played a critical role in the budget structure of Rice. Accordingly, the endowment distribution provided almost half of the university's operating revenues for fiscal year 2009. 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% of the total endowment or $2.0 billion) and over 1,400 funds with restricted or designated purposes (approximately 45% of the total endowment or $1.6 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. The charts below categorize these 1,400+ restricted and designated endowment funds by their purpose and show both the number of funds and the market value of the funds as of June 30, 2009.

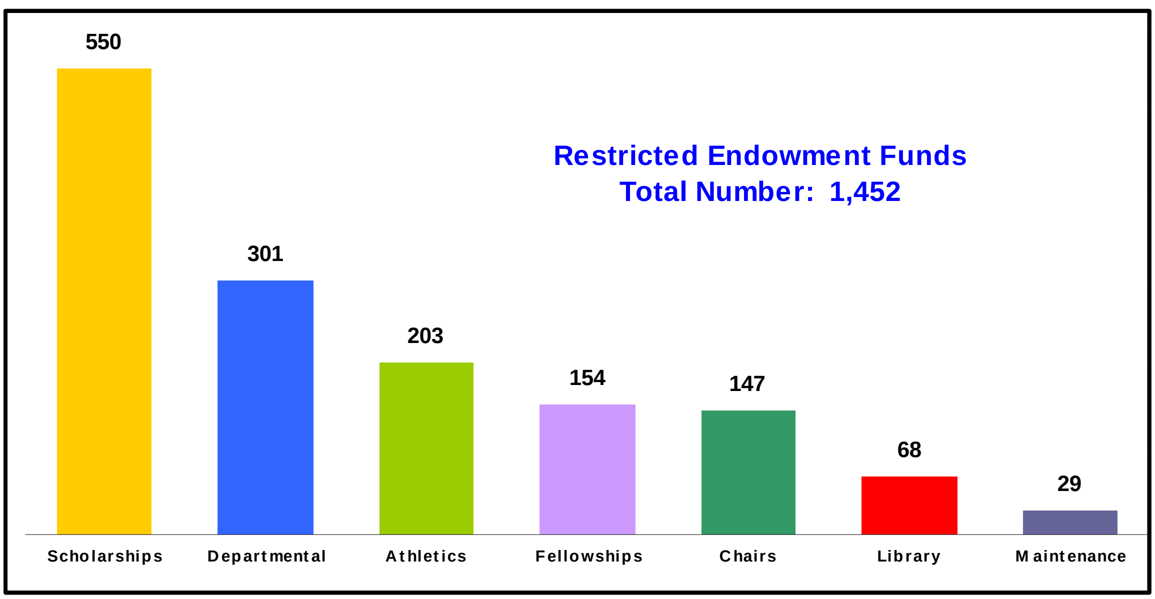

Chart 1

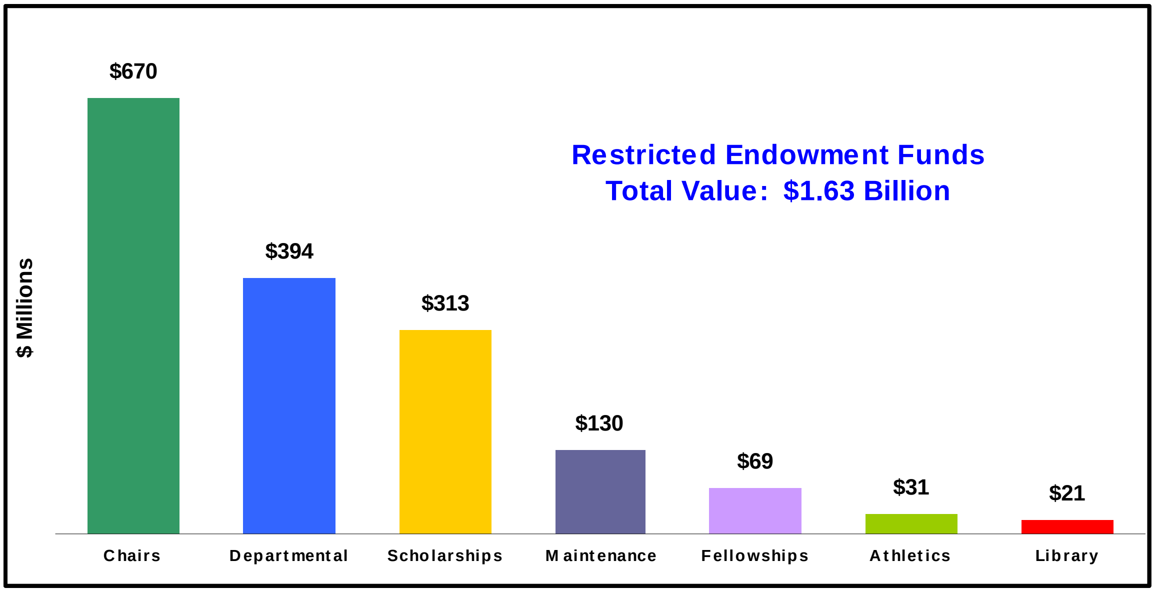

Chart 2

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% and 6.5% of the 3-year average endowment market value, with a targeted range of 4.5% to 5.5% 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.

The Rice endowment 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 certain capital needs.