



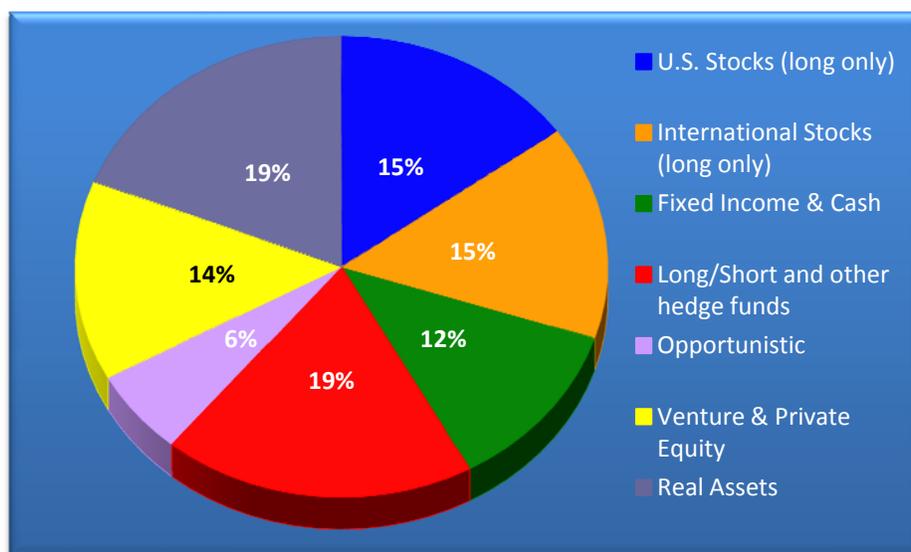
The Rice University Endowment Fiscal Year 2010 Update

Current Year Performance

The Rice Endowment bounced back from a tough market environment in fiscal year 2009 to post a 10% investment return for the fiscal year ended June 30, 2010. This year's investment performance was bolstered by strong returns in publicly traded equities, hedge funds, and high grade U.S. bonds. Real estate returns detracted from performance as this asset class continues to recover from the economic downturn.

Actively Managed and Diversified Portfolio

The Rice endowment portfolio is actively managed and is diversified across many asset classes with more than 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. Graphic 1 below shows the asset allocation targets for Rice's endowment portfolio.



Graphic 1

Fiscal Year 2010 Change in Endowment Value

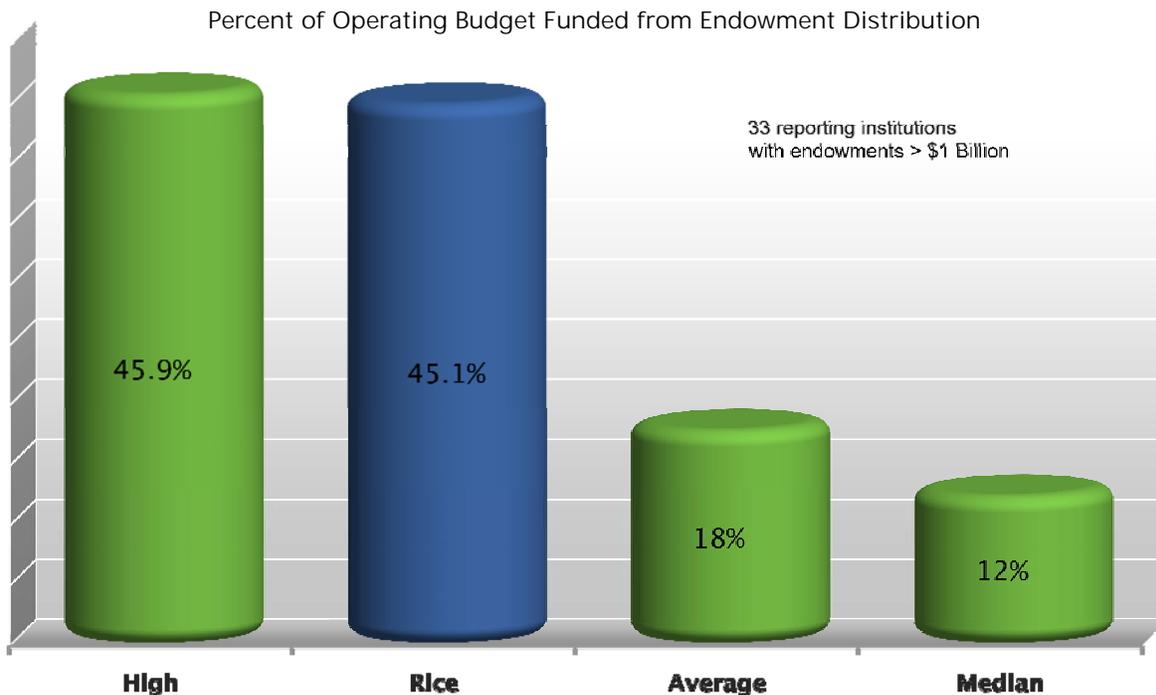
The endowment ended fiscal year 2010 valued at \$3.79 billion compared to \$3.61 billion at the start of the fiscal year. Graphic 2 below shows the various components of the change and their impact on the overall endowment value.

	<u>Change in Value</u> <u>(\$millions)</u>
Market Value @ June 30, 2009	\$3,613
Endowment investment returns	359
Endowment gifts	36
Endowment distribution (spending)	<u>(221)</u>
Market Value @ June 30, 2010	<u>\$3,787</u>

Graphic 2

Importance of the Endowment to Rice

The endowment continues to play a critical role in the budget structure of Rice, as endowment distribution provided approximately 45% of the university's operating revenues for fiscal year 2010. Tuition, sponsored research, and current gifts provided most of the remaining support. Graphic 3 below, from fiscal year 2009, shows the importance of the annual endowment distribution for Rice as compared to our peers.



Graphic 3

Graphic 3 Source: Cambridge Associates Annual Analysis of College and University Investment Pool Returns 2008-09

Endowment Pool

The endowment is a consolidated investment pool composed of a large unrestricted endowment (approximately 55% of the total endowment) and more than 1,500 funds with restricted or designated purposes. 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.

Endowment Spending Policy

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.