

THE RICE UNIVERSITY FISCAL YEAR 2012 ENDOWMENT



Dear Supporters and Friends,

The year 2012 has been an unprecedented time of reflection and excitement for the Rice community, highlighted by a spectacular Centennial Celebration in October when more than 40,000 people helped kick off the university's second century. It is remarkable to think that only 100 years ago, the Rice Institute formally opened with an estate valued at approximately \$4.6 million and a bold vision for "no upper limit." That vision has helped guide Rice from a small, regional institution into a university of international prominence. We owe much of our success to our alumni, faculty, staff, students and friends who have committed their resources, intellect and creativity to moving the university forward.

Philanthropy and a sound investment strategy are also vital components of our continued success. Our overall operating budget, for example, is heavily dependent upon our endowment, which provides nearly half of our operating revenues. Indeed, the cultivation and stewardship of Rice's resources is vitally important as we seek to make ever greater contributions to research, education and service.

We are deeply grateful to each of you who have supported Rice's future by establishing an endowment for scholarships, faculty or departmental programs, and we are pleased to present this endowment report for fiscal year 2012 (July 1, 2011–June 30, 2012). Besides highlighting the performance of the Rice Endowment, it provides information on how your specific fund is influencing Rice's success.

Thank you again for your generous investment in Rice's present and future.

Darrow Zeidenstein
Vice President for Resource Development

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





Current Year Performance

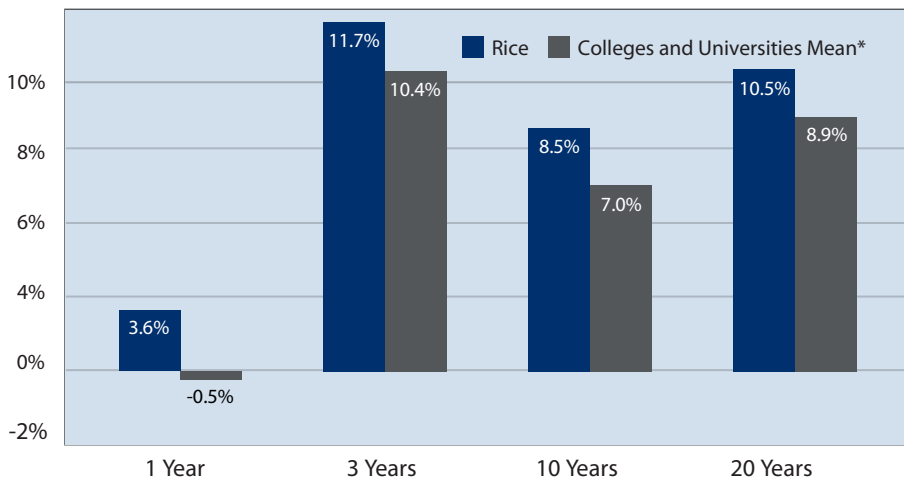
The Rice Endowment earned an investment return of 3.6 percent for the fiscal year ending June 30, 2012, due in large part to strong returns from high-grade U.S. bonds, energy and real estate asset classes. Early results from other universities indicate that Rice's investment return will be in the top quartile of college and university endowments for the year. After endowment spending, the endowment ended with a value of \$4.42 billion at June 30, 2012, compared to \$4.45 billion at June 30, 2011. The chart below shows the change in endowment value this fiscal year.

Change in Value (\$ millions)	
Market Value @ June 30, 2011	\$4,451
Endowment investment returns	155
Endowment gifts	33
Endowment spending	(220)
Market Value @ June 30, 2012	\$4,419

Investment Performance vs. Peers

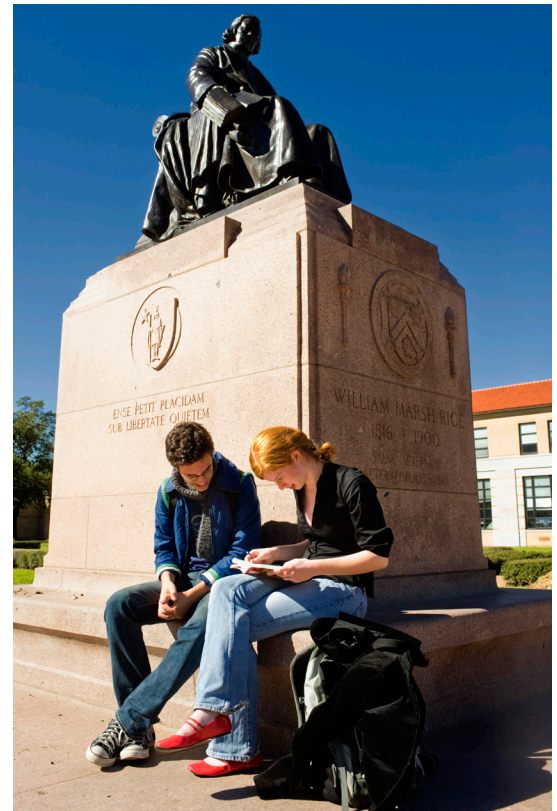
Rice's endowment has consistently outperformed the average return of more than 100 of the top colleges and universities. The following graph shows the comparative performance for the 1-, 3-, 10- and 20-year periods ending June 30, 2012.

Rice Endowment Returns vs. Colleges and Universities



*Cambridge Associates preliminary results as of Oct. 30, 2012

The Rice endowment ranks in the top 20 endowments of private research universities (by market value) in the U.S. 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.





RICE

The Rice University Endowment

Active Management Pays Dividends for Rice

The Rice investment staff seeks out the best external investment managers to manage the endowment's assets. Specifically, Rice looks for managers who have 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, net of fees, these managers will earn the endowment a return greater than the return on passive investments in stock and bond funds. As shown below, this strategy has benefitted Rice by consistently earning returns in excess of these indices.

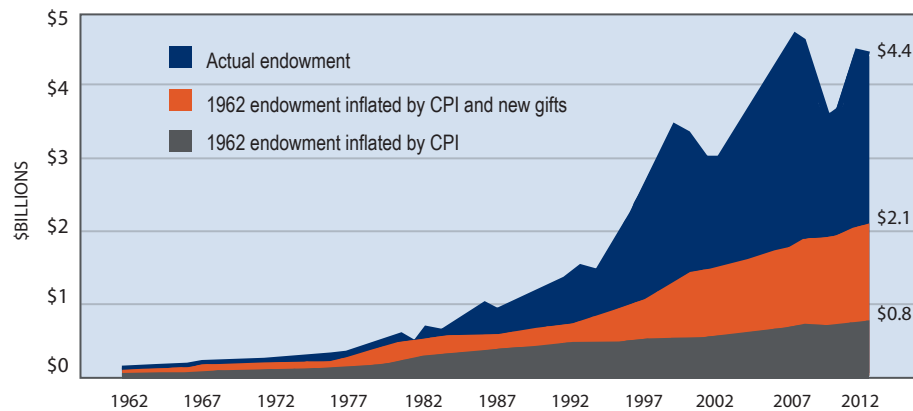
Rice Endowment Returns vs. Passive Index Investments — as of June 30, 2012

	1 Year	3 Years	10 Years	20 Years
Rice Endowment Return	3.6%	11.7%	8.5%	7.5%
35% U.S. Stocks/35% International Stocks/30% Bonds	-1.2%	10.9%	6.7%	7.5%

Endowment Purchasing Power: Looking Back 50 Years

Maintaining purchasing power requires that each endowment fund preserve its ability to support the purpose for which it was established. To preserve endowment purchasing power, an endowment must at minimum grow by the rate of inflation and any new gifts added after subtracting annual spending distributions. The graph below demonstrates how the Rice Endowment has accomplished this goal over the last 50 years.

Endowment Values Compared to Purchasing Power Target



The orange area above takes the 1962 endowment value and (1) increases that amount each year by the rate of inflation using the Consumer Price Index and (2) adds endowment gifts received each year. This line represents the “target” or the minimum for actual endowment value. Through the mid-1980s, the actual value of the endowment was very close to the purchasing power target. Now in 2012, the actual value far exceeds the target. Strong market returns through the '80s and '90s, coupled with Rice's more diversified approach to investing, has helped the actual endowment value far exceed the purchasing power target.



Endowment Pool

The endowment is a consolidated investment pool composed of a large unrestricted endowment (approximately 53 percent of the total endowment) and more than 1,600 funds with restricted purposes. Accounting for the pool operates similarly to a mutual fund, with each individual fund given credit for a proportionate share of the gains and losses earned by the pool. Endowment gifts are bought into the consolidated pool the month they are received. Subsequently, the gift earns the same investment return as the endowment pool.



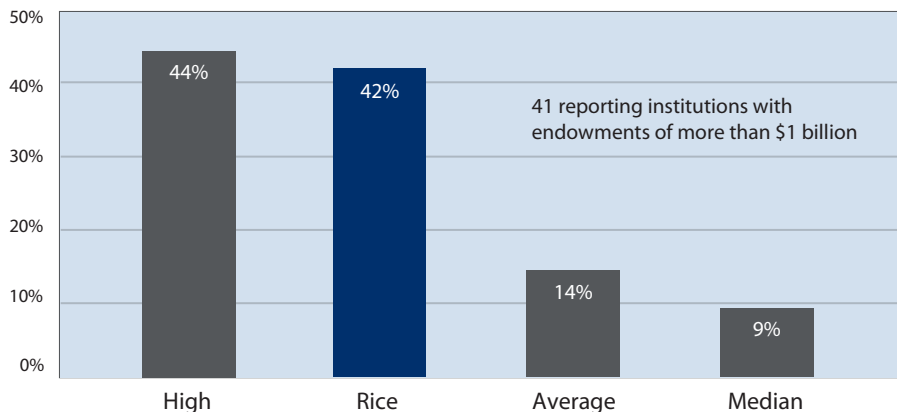
RICE

The Rice University Endowment

Importance of Endowment to Rice University

The endowment continues to play a critical role in the budget structure of Rice, as endowment distribution provides almost half of the university's operating revenues. Tuition, sponsored research and current gifts provide most of the remaining support. The graph below, from fiscal year 2011, shows the importance of the annual endowment distribution for Rice as compared to our peers.

Percentage of Operating Budget Funded From Endowment Distribution



Source: Cambridge Associates (FY2011)

Asset Allocation

Rice's endowment is diversified across many asset classes and is actively managed by about 100 investment managers. Asset allocation and diversification are the bedrocks of the investment process and are critical to managing the endowment through different economic cycles. Manager selection is key to outperforming, and Rice continues to seek the best investment managers in each asset class. The current asset allocation targets are shown in the table below.

Asset Class	Target Allocation
Publicly Traded Equities	30%
Alternative Investments	7.5%
U.S. Stocks/30% International Stocks/30% Bonds	19%
Venture Capital and Private Equity	14%
High Grade U.S. Bonds and Cash	12%
Real Estate	10%
Energy and Natural Resources	7%
Opportunistic	6%
Timber	2%
Total	100%

10-Year Asset Class Performance

Rice's 10-year annual endowment return is 8.5 percent. The asset classes with the strongest performance over this time have been energy and natural resources investments, which returned 32.4 percent annually. Private equity returned 9.8 percent annually, public equities returned 8.7 percent (compared to the benchmark of 6.3 percent), and high-grade U.S. bonds returned 8.7 percent (compared to the benchmark of 5.8 percent). Asset classes with weak returns over this time span include real estate at 6.6 percent and venture capital at 1.8 percent.



Contact Us

If you have a question or concern regarding this report, please contact us at stewardship@rice.edu or 713-348-3072.