Dear Supporters and Friends,

Rice President David Leebron recently celebrated his 10th anniversary at Rice. Over the course of his decade of leadership, this university has enjoyed unprecedented support from you, which has enabled Rice to remain among the very top institutions of higher education in the world. The successful implementation of the Vision for the Second Century and the record-setting Centennial Campaign set the bar even higher for our future endeavors. With your continued philanthropic engagement and our steadfast belief that Rice has “no upper limit,” we are poised to accomplish even more.

The health of our endowment and the sound stewardship of our resources are crucial to carry forward our remarkable progress, bolster our commitment to need-blind admissions and sustain our vision for all that Rice University can accomplish. In this report, we will highlight the performance of the Rice Endowment during fiscal year 2014 (July 1, 2013–June 30, 2014) and provide information on the impact of your specific endowment on Rice.

We can look to many reasons for the success your philanthropy has made possible. Strong leadership continues to be a priority. The appointments of Antonio Merlo as chair of the Department of Economics and founding director of the Rice Initiative for the Study of Economics, Sonia Ryang as director of the Chao Center for Asian Studies in the School of Humanities, and William Fulton as director of the Kinder Institute for Urban Research — to name just a few — highlight our investment in the departments and programs that enrich what we offer our students today and, more importantly, enhance what our students will offer the world tomorrow.

In that spirit, we are thrilled to look ahead with clarity of purpose at the Rice student experience. The Initiative for Students, a three-year volunteer engagement and fundraising effort, will ensure that we continue to bring in top students, strengthen our research opportunities and teaching excellence, and create even more real-world learning opportunities, including internships and mentorships in myriad industries, as well as hands-on leadership and entrepreneurship opportunities. We encourage you to learn more about the Initiative for Students at owledge.rice.edu.

We remain deeply grateful to you for supporting Rice’s future by establishing an endowment. Thank you for your investment in the university, our faculty and our students.

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
About the Rice Endowment

The Rice endowment is a consolidated investment pool composed of a large unrestricted endowment (approximately 52 percent of the total endowment) and more than 1,700 funds with restricted purposes. The annual distribution from the unrestricted portion can be used to support any university expense, whereas the distribution from restricted endowments must be used for specific purposes as designated by the donor (scholarships, library books, faculty chairs, athletics, etc.). Accounting for the pool functions 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.

Current Year Performance

The Rice endowment surpassed the $5 billion mark for the first time as the endowment ended the fiscal year on June 30, 2014, with a value of $5.5 billion. The endowment earned a return of 18.4 percent, which outpaced the policy benchmark’s return of 17.5 percent. A strong public equities market helped drive returns this year accompanied by strong returns in venture capital, energy and natural resources, and real estate.

<table>
<thead>
<tr>
<th></th>
<th>($millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market Value @ June 30, 2013</td>
<td>$4,837</td>
</tr>
<tr>
<td>Endowment investment returns</td>
<td>878</td>
</tr>
<tr>
<td>Endowment gifts and transfers</td>
<td>46</td>
</tr>
<tr>
<td>Endowment spending</td>
<td>(233)</td>
</tr>
<tr>
<td><strong>Market Value @ June 30, 2014</strong></td>
<td><strong>$5,528</strong></td>
</tr>
</tbody>
</table>

Investment Performance

The Rice endowment employs an active management strategy, which means our investment staff seeks to find the best active managers and investments that can consistently outperform passive investing benchmarks for their asset class. Rice has been very successful in this strategy, as endowment returns have consistently outpaced returns from a passive benchmark of stocks and bonds. And when Rice’s returns are compared against a preliminary median return for large endowments over $1 billion in value, Rice once again compares favorably. Rice’s endowment returns are presented net of all manager fees and net of all internal fees and expenses associated with managing the endowment.

<table>
<thead>
<tr>
<th>Annual Compound Returns</th>
<th>1 Year</th>
<th>3 Years</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Return (net of fees)</td>
<td>18.4%</td>
<td>11.7%</td>
<td>13.4%</td>
<td>9.5%</td>
<td>11.6%</td>
</tr>
<tr>
<td>35% U.S. Stocks / 35% International Stocks / 30% Bonds</td>
<td>17.8%</td>
<td>9.2%</td>
<td>12.5%</td>
<td>7.6%</td>
<td>7.9%</td>
</tr>
<tr>
<td>Colleges and Universities Mean*</td>
<td>15.4%</td>
<td>8.7%</td>
<td>11.4%</td>
<td>7.4%</td>
<td>9.7%</td>
</tr>
</tbody>
</table>

*Cambridge Associates as of October 29, 2014
Endowment Purchasing Power

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, the endowment must earn enough investment return to cover the annual spending distributions and inflation. The chart below shows that Rice has been able to exceed this goal over several longer term periods, which has allowed the endowment to deliver additional dollars to the annual operating budget to enhance programs central to Rice’s mission.

<table>
<thead>
<tr>
<th>Annual Compound Rates</th>
<th>5 Years</th>
<th>10 Years</th>
<th>20 Years</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Return (net of fees)</td>
<td>13.4%</td>
<td>9.5%</td>
<td>11.6%</td>
</tr>
<tr>
<td>Rice Spending Rate</td>
<td>5.4%</td>
<td>5.0%</td>
<td>5.0%</td>
</tr>
<tr>
<td>CPI Inflation Rate</td>
<td>2.0%</td>
<td>2.3%</td>
<td>2.4%</td>
</tr>
<tr>
<td>Real Return after Spending</td>
<td>5.5%</td>
<td>1.9%</td>
<td>3.8%</td>
</tr>
</tbody>
</table>

Financial Aid and the Rice Endowment

The Rice endowment has over 1,700 individual endowment funds, of which 600+ are undergraduate scholarship funds. These endowments help Rice support its need-blind admissions policy. About two-thirds of Rice undergraduates receive financial aid. In FY 2014, aid from institutional funds (which excludes scholarship funds provided by the state and federal government) totaled almost $70 million. Of that amount, about 28 percent was funded by the distribution from restricted endowed scholarships and the balance was funded from the university’s operating budget. The major source of funding for the university operating budget is the unrestricted endowment. The chart below shows the increase in financial aid over the past 10 years.

Need-based aid includes:

- Need-blind admissions
- Meeting full need
- No loans required for students from families earning less than $80,000
- $10,000 required loan cap over four years
The Endowment is Vital to Rice’s Mission

The endowment continues to play an important role in the budget structure of Rice. The endowment distribution is the single largest revenue source to the operating budget and provides approximately 40 percent of the university’s operating revenues. Tuition, research grants, auxiliary enterprises and current gifts provide additional support. The most recent comparative data from other university endowments over $1 billion in value is as of Fiscal Year 2013 ended June 30, 2013. That data, as shown in the graph below, shows that Rice relies more heavily on the operational support from the endowment than the average of this group of large endowments.

![Percentage of Operating Budget Funded From Endowment Distribution](image)

Source: Cambridge Associates (FY 2013)

Asset Allocation

Rice’s endowment is diversified across many asset classes and is actively managed by approximately 100 investment managers. Asset allocation and diversification are the foundation of the investment process and are critical to managing the endowment through different economic cycles. Manager selection is essential to outperforming and Rice seeks to partner with the best investment managers in each asset class. The current asset allocation targets are shown below.

![Asset Allocation Chart](image)

- Publicly Traded Equities
- Venture Capital & Private Equity
- Real Estate
- Natural Resources
- Opportunistic
- Hedge Funds
- Fixed Income and Cash

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.

Contact Us

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