



RICE UNIVERSITY

ENDOWMENT REPORT

FISCAL YEAR 2020

Dear Supporters and Friends,

In a year like no other, we are incredibly thankful for the dedication and compassion that define the Rice community. Your remarkable commitment to the university maintains Rice's standing at the forefront of higher education.

The realities of a global pandemic and economic recession have underscored the importance of the endowment to the success and stability of the university. In that light, we are pleased to present the following report on the performance of our endowment for fiscal year 2020 (July 1, 2019 – June 30, 2020). While the events of the past year have affected the endowment's typical performance, the wise investment strategies of the Rice Management Company have assured that Rice remains resilient and adaptable, able not only to weather this storm but also to continue our pursuit of excellence.

Your support of the endowment continues to have a substantial impact on so many aspects of campus life. Endowments for faculty chairs enable our most distinguished scholars to pursue cutting-edge research across disciplines and to mold our students into future leaders and innovators. Departmental endowments create opportunities for transformative intellectual exploration both inside and outside of the classroom. Scholarship endowments advance the bold ambitions of The Rice Investment, positioning Rice as a national leader in affordability and allowing us to attract gifted students from all backgrounds. Finally, funds like the ARUBA Legacy Endowment strengthen our commitment to diversity and inclusion, creating a vibrant campus culture that prioritizes the success and wellbeing of all members of our community. None of this would be possible without your unfailing generosity.

We are deeply grateful for your considerable investment in the university. Your support sustains Rice's proud tradition of educational excellence and global impact, and we look forward to all that we will accomplish together in the future.



Kathi Dantley Warren

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

CURRENT YEAR PERFORMANCE

Rice University's endowment experienced a slight investment loss of -0.7% for the fiscal year ending June 30, 2020. This is the first year the endowment has incurred a loss since the global financial crisis in fiscal year 2009, when it suffered an investment loss of -18%. After annual spending of \$309 million to support university operations, the endowment ended fiscal year 2020 with a value of \$6.16 billion. 2020 was a challenging fiscal year, as the COVID-19 pandemic upended markets in the spring. While stock market indices later recovered much of their losses, not all asset classes were as fortunate. The energy sector was hit particularly hard by falling oil prices as a result of a decrease in demand related to the pandemic. At 9% of the total endowment, Rice has a larger allocation to energy than most of our peers. While Rice's investments in energy recorded a loss of -33% for the fiscal year, it remains the best performing asset class over the past 20 years with average annual returns of 22%. Also hard-hit were consumer services businesses such as retail and restaurants, which impacted the endowment's investments in the Rice Village just west of campus.



(\$ millions)

Market Value at June 30, 2019	\$6,481
Endowment investment losses	(49)
Endowment gifts and transfers	41
Endowment spending	(309)
Market Value at June 30, 2020	\$6,164

Endowment Returns by Fiscal Year

2020	2019	2018	2017	2016	2015	2014	2013	2012	2011
-0.7%	7.6%	12.4%	14.0%	0.2%	4.2%	18.4%	13.7%	3.6%	22.4%

HISTORICAL ENDOWMENT PERFORMANCE

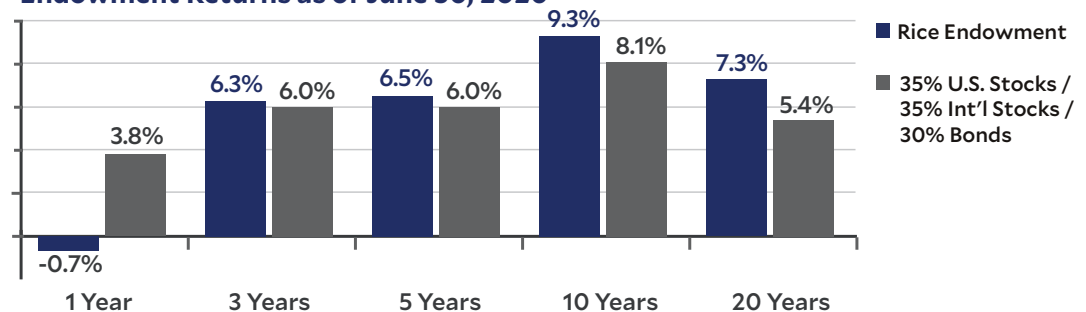
The Rice Management Company's (RMC) investment team seeks to establish deep-rooted partnerships with world class investment managers who also share RMC's long-term view of investing. It is important for the endowment to perform well to help support the university's current operations, but it is equally important to plan and make investments that will continue to provide strong returns for the next generation of students, faculty and staff. This long-term view and planning is paramount in every investment decision we make.

The endowment's average annual return for the 10 years ending June 30, 2020, net of fees, was 9.3%, compared to 8.1% for a passive portfolio consisting of 35% U.S.

stocks, 35% international stocks and 30% U.S. bonds, showing that active management of the endowment's assets has added value over this period. Over the 20-year period ending June 30, 2020, the endowment returned 7.3% annually. This compares favorably to U.S. stocks (as measured by the Russell 3000 index), which returned 6.1% annually and U.S. bonds, which returned 5.1% annually for the same period.

The endowment's 10- and 20-year long-term investment returns continue to be in the top quartile of colleges and universities, as indicated by the 750+ institutions that participate in the annual Study of Endowments published by the National Association of College and University Business Officers – Teachers Insurance and Annuity Association (NACUBO-TIAA).

Endowment Returns as of June 30, 2020





THE ANNUAL ENDOWMENT PAYOUT IS RICE'S LARGEST SOURCE OF REVENUE

As a leading research university with a distinctive commitment to undergraduate education, Rice University aspires to pathbreaking research, unsurpassed teaching and contributions to the betterment of our world. It seeks to fulfill this mission by cultivating a diverse community of learning and discovery that produces leaders across the spectrum of human endeavor. This mission could not be accomplished without the support of the endowment, which remains the single largest contributor of financial resources to the annual budget. In recent fiscal years, as shown in the table below, approximately 40% of the university's annual operating expenses have been funded by the endowment's payout. Student tuition and fees (26%), revenues from grants and contracts (19%), auxiliary enterprises and current spendable gifts, including the Rice Annual Fund, support the remainder of the annual budget.

The endowment has distributed \$2.6 billion to the operating budget over the past 10 years and \$4.3 billion over the past 20 years.

(\$ millions – per financial statements)	2020	2019	2018	2017	2016
Endowment Distribution	\$311	\$301	\$284	\$276	\$266
Operating Expenses	\$786	\$748	\$693	\$681	\$662
Percentage Supported by Endowment	40%	40%	41%	41%	40%

ASSET ALLOCATION

Rice's endowment is diversified across asset classes and is actively managed by more than 100 investment managers. The endowment's 15 largest partners account for \$2.5 billion or 41% of the total investments as of June 30, 2020. Asset allocation and diversification are central to the investment process and critical to managing the endowment through different economic cycles. Exceptional manager selection is necessary for superior performance, and Rice continues to seek the best investment managers in each asset class. To support the in-perpetuity status of the endowment, we believe a long-term portfolio should be equity-oriented, diversified, invested in real assets (real estate/natural resources), value focused and valuation sensitive, fee sensitive, and partnered with managers who have a real investment edge.

Asset Class	Target Allocation at 6/30/20
Publicly Traded Equities	22%
Venture Capital and Private Equity	19%
Credit/Distressed	12%
Absolute Return	10%
Real Estate	15%
Energy and Natural Resources	9%
High Grade U.S. Bonds and Cash	12%
Timber	1%
Total	100%



RICE MANAGEMENT COMPANY TEAM

The Rice Management Company is a team of 35 professionals who provide oversight of Rice University's endowment. The endowment is ranked in the top 20 endowments of private research universities (by market value) in the U.S. RMC supports Rice's mission through enlightened stewardship of the university's financial resources with a three-pronged approach: provide sufficient, stable and growing endowment cash distributions to support the core endeavors of the university; connect the university's long-term capital with world class partners that can compound that capital over time; and enrich the Rice community, Houston and our philanthropic peers by sharing our expertise.

We manage asset allocation, selection and termination of investment managers, performance monitoring and reporting to the RMC Board of Directors. We primarily utilize external investment managers and invest globally across all asset classes. We internally manage a sizable portion of RMC's real estate investments, many directly held mineral interests and some private investments.

The RMC also provides oversight and management for charitable remainder trusts, estates and other accounts under the administration of Rice Trust Inc., the university's wholly-owned trust company subsidiary, as well as other deferred gift accounts of the university.

ASSET CLASS SPOTLIGHT: PUBLIC EQUITIES

The RMC public equities portfolio is the largest allocation in the endowment at \$1.4 billion and serves as a growth engine for long-term capital appreciation. The portfolio consists of investments with 11 external partners. These partners have high quality, long-term track records, defined portfolio construction processes and investment expertise. RMC prioritizes longevity in its manager relationships, with seven of the 11 public equity partners included in the portfolio for over a decade. Each partner fills a unique role within the portfolio, serving to further diversify through variation in strategy, country and sector focus. The increasingly competitive public markets investing landscape demands such specialization. Diversifying in this manner also allows RMC to capture the upside of global equity markets while mitigating the downside and exposure to any single market. With approximately 1,400 holdings, the portfolio is diversified across sectors and is also truly global, with investments in 47 countries.

Over the past 25 years, the RMC public equities portfolio has generated significant absolute and relative returns, creating 14.6 dollars for each dollar invested, versus the passive policy benchmark return of 8.4 dollars. This equates to 240 basis points of annual outperformance relative to the benchmark over those 25 years. However, public markets can be highly volatile, which is not a desirable characteristic for a spending institution such as Rice. Therefore, the portfolio is positioned to take advantage of strong risk-adjusted returns with our well-seasoned partners. The RMC public equity team maintains a close relationship with each partner, preserving open communication and holding quarterly update calls.



THE RICE VILLAGE: FARE FOR CARE

In April, as the country began to grapple with the extent of the impact of COVID-19, restaurants bore a large part of the economic burden. In Rice Village, their sales declined 70% on average and most were struggling to just stay open. Similarly, our healthcare providers faced increased workloads and long hours, all with an elimination of onsite food service. Thus, the RMC and the Rice Village team created Fare for Care to feed our frontline workers while providing a lifeline to our restaurants.

Between RMC seed/matching funding and community donations, we raised over \$100,000 and donated just over 15,000 meals to emergency and ICU staff at Memorial Hermann, CHI St. Luke's, Methodist and MD Anderson, covering one meal per shift for four weeks. To do this, we partnered with our Rice Village restaurants, who creatively worked to put together menus that provided nourishment to our healthcare heroes while keeping their staff employed. Our property management and brokerage team handled logistics and distribution. It was a moment of great pride to see our team and community come together to help those in need.

ENDOWED CHAIRS SUPPORT EXTRAORDINARY SCHOLARS

Rice's endowed chairs, supported by a total of 177 endowments, facilitate the intellectual rigor, research excellence and transformative educational environment that produce groundbreaking ideas and that define the Rice experience. W. Caleb McDaniel, the Mary Gibbs Jones Professor of Humanities, is a leading scholar of slavery, abolitionism and nineteenth-century American history. In May 2020, he won the Pulitzer Prize in History for his book "Sweet Taste of Liberty: A True Story of Slavery and Restitution in America." The book recovers the life story of Henrietta Wood, a woman who won a historic court case in 1878 seeking restitution from one of the men who captured and enslaved her. McDaniel credits the success of his book, which combines robust archival research and compelling historical storytelling with a timely meditation on reparations, to the level of

support he receives as a faculty member at Rice.

Professor McDaniel's significant accomplishments as a historian are matched by his remarkable commitment to connecting his knowledge and expertise with service to the university. McDaniel is the current chair of the Department of History and a celebrated teacher. At Duncan College, he and his wife served as head resident fellows for three years and as magisters for five years, helping to enrich the cultural and intellectual lives of Duncan students. He also serves as co-chair of Rice's Task Force on Slavery, Segregation and Racial Injustice, an initiative commissioned in 2019 to spearhead research, campus programming and communitywide dialogue addressing how histories of slavery and racism have shaped the university.



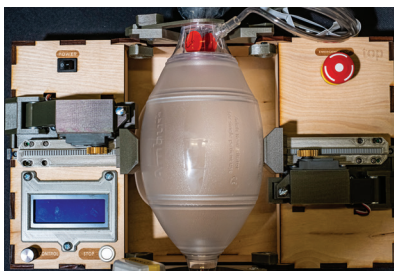
W. Caleb McDaniel



"TAKE A BREATH": DEPARTMENTAL ENDOWMENT SEEDS LIFESAVING ENGINEERING DESIGN

Departmental endowments are a vital resource that allow departmental leadership to fund programs and initiatives specific to their priorities. Currently, 468 departmental endowments fund a wide range of activities, including lectures, student research, experiential learning, operational imperatives and more.

The Harrell and Carolyn Gurklis Huff Endowment for Design is a departmental endowment that supports collaborative teams of undergraduates working in the Oshman Engineering Design Kitchen. In 2019, this endowment backed the "Take a Breather" team in an effort to automate bag valve masks. The simple bags are squeezed to deliver air to a patient who cannot breathe on their own, but in low-resource areas with limited medical personnel, family and loved ones are often tasked with squeezing the bag. This is an undertaking that is tiring and that, at best, is inconsistent therapy for the patient.



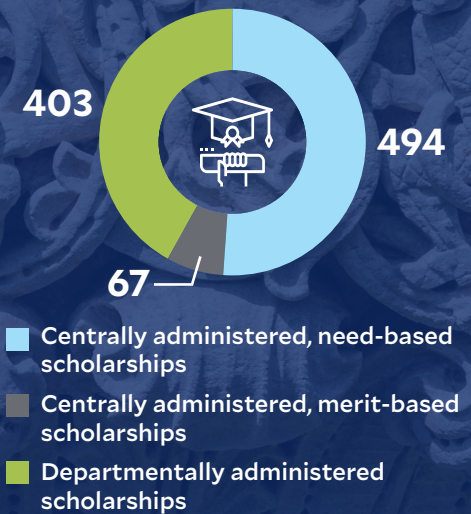
"Take a Breather" created a low-cost, automatic compression device that solves the problems of manual bag valve mask use. As the pandemic worsened, resulting in world-wide ventilator shortages, the plans for this low-cost device (now dubbed the Apollo BVM) were made available for no cost on the internet. While the Huff Endowment for Design played a key role in developing the Apollo BVM, its support of Rice students' efforts to engineer solutions to pressing global problems will continue to serve as a catalyst for current and future Owls to better our world with lifesaving technologies.

GRATITUDE FOR SCHOLARSHIP ENDOWMENTS

The Rice endowment currently includes 964 endowed scholarships, which support students from all backgrounds and recognize the accomplishments and intellectual pursuits of our most talented Owls. Need-based, merit-based and departmental scholarships enrich the student body by providing life-changing financial aid, celebrating academic excellence and recruiting those with exceptional skills, such as gifted musicians and student-athletes. In totality, these scholarships empower Rice to attract the best and the brightest and provide a foundation of support that allows students to thrive academically while exploring the breadth and depth of the Rice experience.

The Rice Investment, a historic financial-aid initiative that draws upon endowed scholarship funds dedicated to need-based undergraduate applicants, works to ensure that all deserving students have access to an unparalleled Rice education. For more information, visit thericeinvestment.rice.edu.

964 TOTAL ENDOWED SCHOLARSHIPS



“Scholarships have allowed me the time and space to succeed. I know that the Rice community is a compassionate one, one that has my best interests in mind and is devoted to seeing me excel. For all that you do, I thank you.”

— **Emily Sample '22**, Wiess College



“It takes a special person to fund an education for a person they’ve never met. I have a job offer for a position I never would have imagined before coming to Rice, and none of this would have been possible without the generous donors who helped me. I am truly thankful that they came into my life. They have helped me feel secure even during uncertain times, and I can’t thank them enough.”

— **Jared Lyons '21**, Will Rice College



“I cannot express enough how honored I am to receive scholarships given by Rice donors. I intend to make the most of my education and experience here at Rice and pursue my passion for the field of medicine. I also intend to honor all those who helped make my education possible by supporting other bright minds in pursuit of higher education. Because of your desire to help others, I am able to attend the college of my dreams — and for that I am forever thankful.”

— **Emily Nguyen '24**, Martel College



CONTACT US

If you have any questions regarding this report, please contact Trisha Ball at stewardship@rice.edu or 713-348-4383.