

THE RICE UNIVERSITY

FISCAL YEAR 2019



ENDOWMENT

Dear Supporters and Friends,

Through your support of endowments at Rice, the university builds on its aspirations to provide a transformative undergraduate and graduate student education, to advance groundbreaking teaching and research, and to contribute effective solutions to global challenges. Whether by the creation of faculty chairs in engineering and the sciences, fellowships in the humanities, or scholarships that support our ambitious financial aid policy, The Rice Investment, you have a tremendous impact on Rice.

Endowments are a driving force behind the success of some of our most influential programs, including the Kinder Institute for Urban Research, which celebrates 10 years of work toward fostering vibrant communities. Significantly, the School of Social Sciences will mark its 40th anniversary with the completion of Kraft Hall, a critical component of Rice's policy corridor, which also includes the Baker Institute and the Jones Graduate School of Business. Such funding allows these schools and institutes to collaborate with local governments and apply evidence-based research to influence policies that address pressing problems, such as equitable access to healthcare and housing. Endowment support has also enabled the creation of the Betty and Jacob Friedman Holistic Garden, a dynamic space for biosciences teaching and research, student learning outside the classroom and community involvement. These efforts, and many others made possible by endowments, enrich all facets of Rice's educational mission.

In recognition of the people and programs that have contributed to Rice's academic excellence, we are pleased to present this endowment report for fiscal year 2019 (July 1, 2018–June 30, 2019). This year has seen continued growth in the endowment due to sound investments by the Rice Management Company, an accomplishment that also has increased opportunities for our students and faculty. We are, as always, deeply grateful for your continued support.

Sincerely,

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 returned 7.6% for the fiscal year ending June 30, 2019. The endowment ended the fiscal year with its highest ever value of \$6.5 billion. The endowment recorded particularly strong contributions from venture capital, private equity and credit/distressed investments with annual returns of 22.7%, 21.3% and 21.4%, respectively. The endowment's average annual return over the last five and 10 years is 7.5% and 10.4%, respectively.

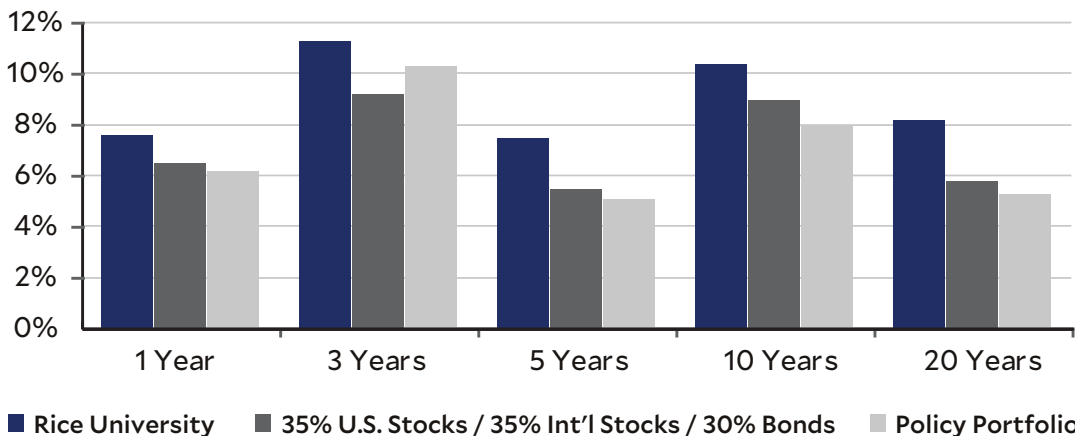
	(\$ millions)
Market value at June 30, 2018	\$6,278
Endowment investment returns	454
Endowment gifts and transfers	48
Endowment spending	(299)
Market value at June 30, 2019	\$6,481

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 future generations of students, faculty and staff. This long-term view and planning is paramount in every investment decision we make.

Over the long term, Rice expects that, collectively and net of fees, these managers will earn the endowment a return in excess of the return on passive investments in stocks and bonds. This chart shows how the endowment has performed over different time periods. In all longer-term periods, the endowment has been able to outperform the passive index and the policy portfolio benchmark.

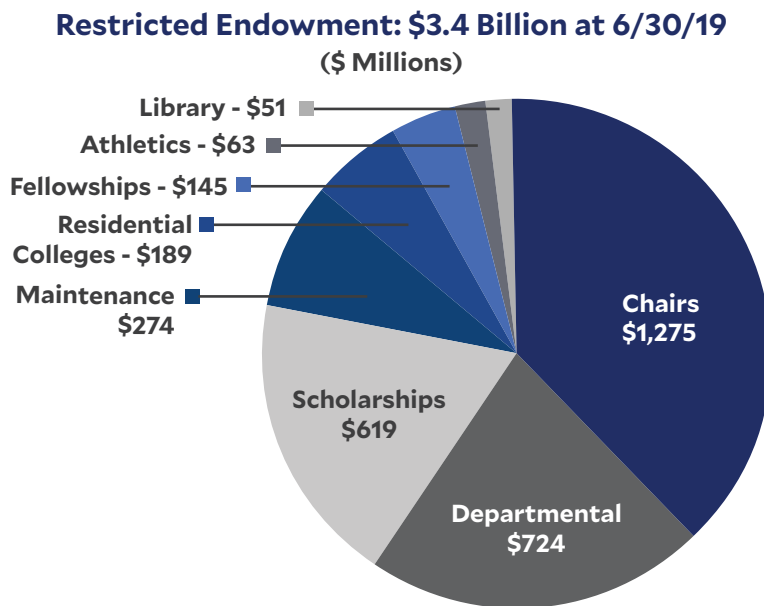
Endowment Returns as of June 30, 2019





THE IMPACT OF ENDOWMENT GIFTS

The endowment grows over time from two sources: investment returns and new gifts added to the endowment. In 1904, the Rice Institute (now Rice University) was founded with a gift of \$4.6 million from the estate of William Marsh Rice. This founding gift was an endowment, meaning that it could never be spent, and only the earnings from this gift could be used to support the university. Rice has been fortunate over time to have many donors establish endowment funds for various purposes across campus. Today, the endowment stands at \$6.5 billion and consists of a large unrestricted endowment (approximately 48% of the total or \$3.1 billion) and over 1,900 individual funds with restricted purposes (approximately 52% of the total or \$3.4 billion). The different types of purposes within the restricted endowment are shown below.

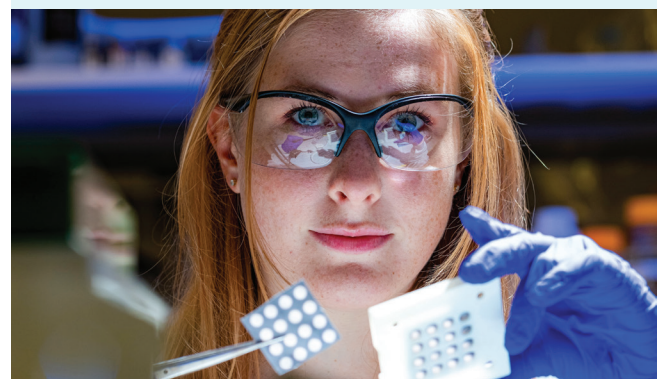
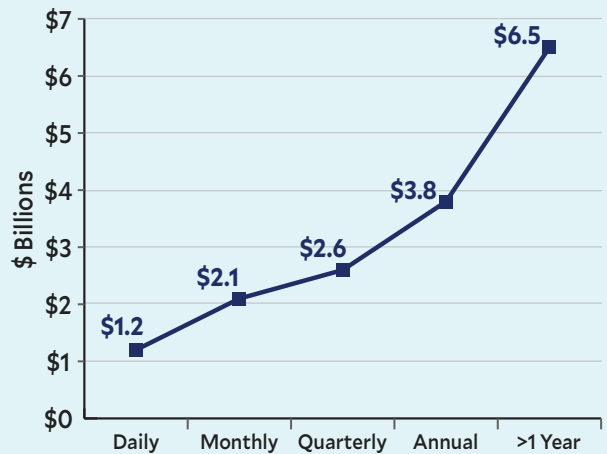


This fiscal year, 40% of operating expenses were funded by the annual distribution drawn from the endowment. This is the single largest revenue source for the university. Endowment gifts have given and will continue to give the university the ability to provide a world-class education to students, regardless of their ability to pay, and to help fund pathbreaking research performed by Rice’s outstanding faculty.

ENDOWMENT LIQUIDITY

\$299 million was withdrawn from the endowment this fiscal year to help fund the operations of the university. This amount represents the largest revenue source to Rice, with tuition and fees and grants and contracts providing the next largest contributions to operations. The ability to liquidate investment assets when needed to support the annual endowment withdrawal is in the forefront when portfolio investment and asset allocation decisions are made by RMC. Some investments such as venture capital and private equity, energy and real estate often have longer-term time horizons before returns are realized and funds are returned to investors. While Rice does invest in these aforementioned asset classes, the endowment does maintain an allocation to publicly traded equities, fixed income and cash, which can be liquidated when needed.

Cumulative Liquidity of Rice Endowment
As of June 30, 2019



**THE RICE INVESTMENT:
TALENT DESERVES OPPORTUNITY**

Rice has always offered generous financial aid to low-income students. However, The Rice Investment, announced in 2018, reaffirms and deepens Rice’s commitment to making higher education affordable. For the academic year ending June 2019, 56% of Rice undergraduate students received some form of financial aid. Beginning in fall 2019 under The Rice Investment, middle-income families with typical assets will receive grant aid to cover at least full tuition if they earn up to \$130,000 per year, and at least half tuition for families earning between \$130,001-\$200,000. In addition, students with family incomes below \$65,000 will receive grant aid covering not only their full tuition, but also all of their mandatory fees and room and board. Students receiving aid under The Rice Investment will have all demonstrated need met without any loans. This is an investment in the promise of all students who demonstrate talent, initiative and drive to positively impact the world.

Currently, 28% of undergraduate financial aid awarded by Rice is supported by the annual distribution from endowment funds restricted to financial aid. The university is initially shouldering much of the immediate cost of The Rice Investment and is seeking to secure \$150 million in need-based financial aid endowments by 2025 to support these financial aid policies in perpetuity. Over time, an endowed scholarship fund can have a significant impact on Rice and the students they benefit.


A GIFT WITH EXPONENTIAL IMPACT

M.E. & Florrie Andrews Scholarship	
Year endowment established	1969
Original gift amount	\$31,812
Cumulative earnings	\$1,598,000
Cumulative payouts	\$801,827
Ending value at 6/30/19	\$827,985
Payout in fiscal year 2020	\$39,536

Earnings are 50x original gift.

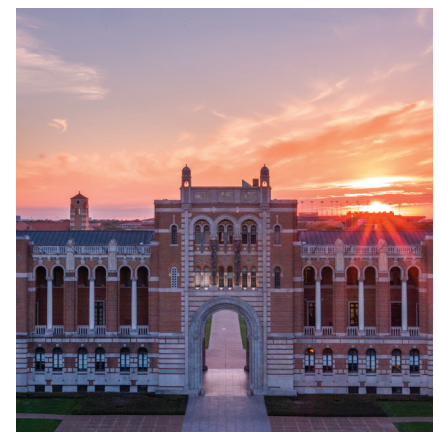
Scholarships awarded are 25x original gift.

The payout in fiscal year 2020 is larger than the original gift.

ASSET CLASS SPOTLIGHT: HEDGE FUNDS AND OPPORTUNISTIC INVESTMENTS

Equity investments serve as the growth engine of Rice’s endowment: approximately 70% of Rice’s endowment is in the form of equity ownership of public companies, private companies, real estate firms and firms engaged in natural resources — because equity investments have the highest expected returns over long-time periods. This engine, however, provides returns in a lumpy, sporadic fashion, as markets are difficult to time correctly. For example, over the past 20 years, missing the 10 best-returning days in the U.S. stock market would have cut an investor’s return in half; missing the top 20 days would have resulted in an investment loss. Therefore, Rice allocates a significant amount to investments that provide more stable (and commensurately lower) returns over time and that are less correlated to equity markets. These assets include cash, bonds and hedged strategies.

Hedged/opportunistic investments comprise 20% of Rice’s endowment and have provided annual returns of 6.5% over the past 10 years and 7.2% over the past 20 years. Importantly, during large downturns in equity markets (e.g., the dot-com crash in 2000 and the financial crisis in 2008), hedged strategies have outperformed equity markets by a large margin, thereby providing ballast to Rice’s portfolio and RMC’s ability to maintain consistent and growing distributions over time.


CONTACT US

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