

THE RICE UNIVERSITY FISCAL YEAR 2017



ENDOWMENT

Dear Supporters and Friends,

In 1912, Edgar Odell Lovett welcomed the Rice Institute's first class with a vision to pursue "high and noble tasks" that would "characterize members of a growing and immense family." In the months since Hurricane Harvey, we have seen those words come to life — with thousands of students, faculty, staff, alumni and friends rallying to support those in crisis.

After an emergency like Harvey, we are reminded of the critical importance of our endowment to maintaining the university's success and stability. Endowed funds, strengthened by philanthropy, support every corner of campus, allowing Rice not only to withstand such an unprecedented natural disaster, but also to plan and execute its strategic vision for future generations.

We are pleased, in that light, to report on the health of our endowment for fiscal year 2017 (July 1, 2016–June 30, 2017). We understand — and always have — that the continued sound stewardship of our resources is important to you. Indeed, your generosity is crucial to carrying forward our remarkable progress, bolstering our commitment to need-blind admissions, attracting and empowering our pioneering faculty chairs and sustaining our grand vision for all that Rice can accomplish. From the pathbreaking work of faculty in the Kinder Institute for Urban Research, to the student innovations at the Oshman Engineering Design Kitchen, to national and international experiential learning opportunities, the endowment truly breathes life into every facet of the Rice experience.

Thank you, again, for your considerable investment in the growing and immense family that is Rice, and for your faith in our exciting future.

Sincerely,

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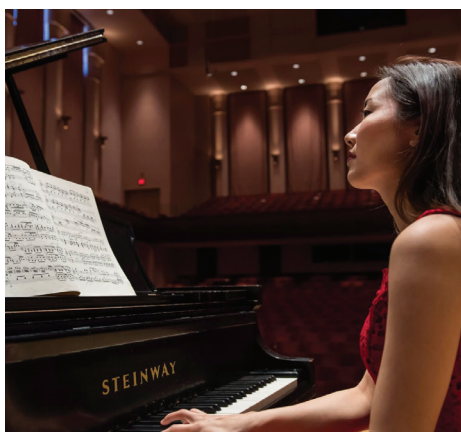
Darrow Zeidenstein

Vice President for Development and Alumni Relations

A handwritten signature in black ink.

Allison Thacker

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



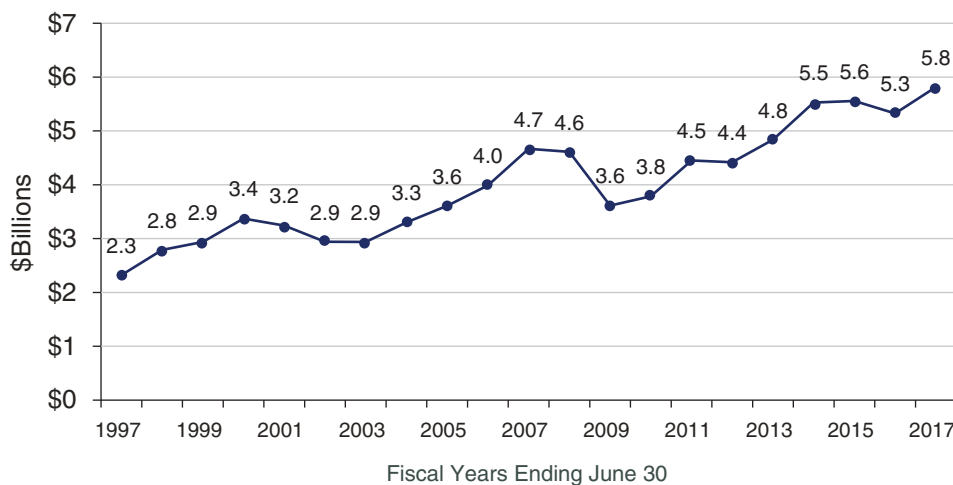


RICE

Investment Performance

Rice University's endowment returned 14.0%, net of fees, for the fiscal year ending June 30, 2017. The endowment ended the fiscal year with a value of \$5.8 billion, its highest ever year-end value. The endowment benefited from strong returns in public equities as well as an even stronger performance from the portfolio's investments in energy and natural resources. The endowment's average annual return over the last five years is 9.9%.

Growth of Endowment: 1997 - 2017 (after spending)



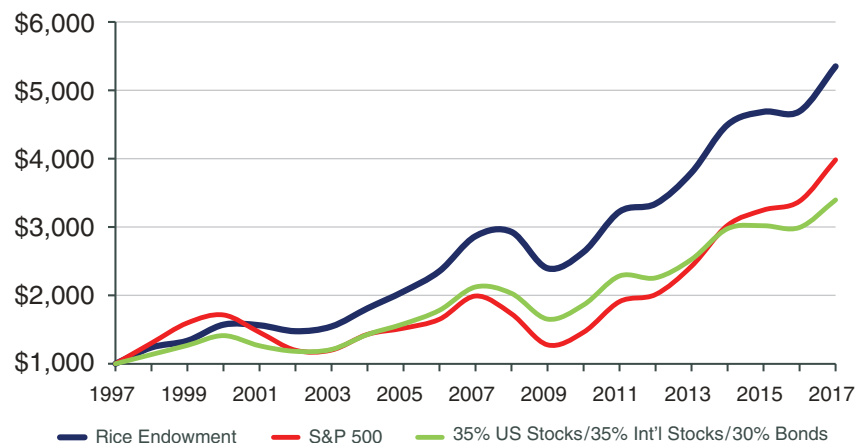
Endowment Returns by Fiscal Year

2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
2.2%	-18.2%	9.9%	22.4%	3.6%	13.7%	18.4%	4.2%	0.2%	14.0%

Growth of \$1,000 over 20 Years

The endowment is actively managed by Rice Management Company (RMC), which employs a "manager of managers" approach. The RMC primarily utilizes external managers (approximately 100) and invests globally across all asset classes. It is this active management strategy that has allowed the endowment's returns to outpace passive investment benchmarks, such as the S&P 500. Over the last 20 years, \$1,000 invested in Rice's endowment would be worth \$5,350 today compared to \$3,983 had that same \$1,000 been invested in the S&P 500. This additional value creation is essential to helping Rice achieve ambitious strategic goals as the university continues into its second century.

Growth of \$1,000 Over 20 Years (Cumulative Returns)



Asset Class Spotlight: Real Estate

Real estate was part of the founding bequest from William Marsh Rice. A few of his original assets, such as 4,000 acres of agricultural land in Waller County, Texas, remain in the university's portfolio over 100 years later. Rice's colorful real estate investment history includes partial ownership of Yankee Stadium in the 1960s (a bequest from an alumnus) and involvement in the transfer of land that created NASA's Houston campus.

Real estate remains a staple asset class in today's diversified endowment portfolio, comprising 11% of the total pool. Investment goals for real estate are to create equity-like returns while also providing a hedge against the risk of resurgent inflation. Over the past five years, Rice's real estate portfolio has produced a 12.6% annual return; this exceeds its benchmark by 2.1% and compares favorably to the



five-year return on the overall endowment of 9.9%.

Rice owns real estate in three structures: funds, joint ventures and direct ownership. Fund managers provide Rice diversified exposure to an intriguing opportunity set around the country and world. Joint ventures provide the endowment access to local investment talent in select U.S. cities in effective, scalable partnerships. Direct investments comprise 46% of the total real estate portfolio. All of the direct assets are in the Houston region, and most of them

are near the campus. The best example is Rice Village, where the endowment owns 300,000 square feet of retail and commercial space. If you have visited the area lately, you may have noticed several new tenants, updated building facades, and newly created public spaces, such as Morningside Plaza. Rice is able to reinvest in our Village properties to maximize returns due to our long investment horizon, deep demand from tenants and customers, and our information advantage near the campus.

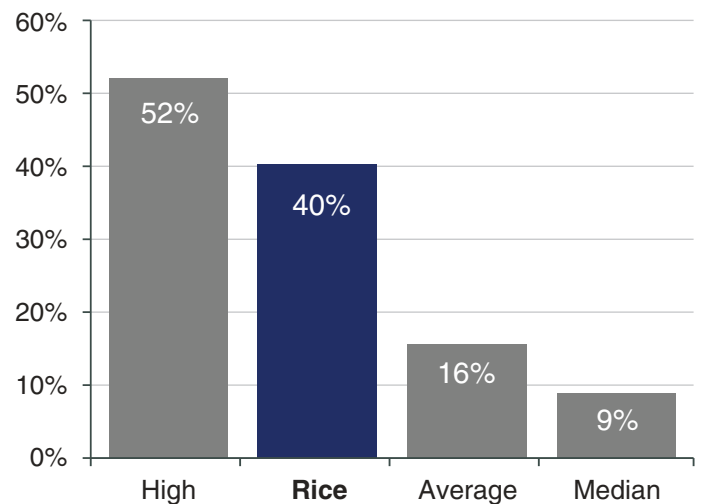
The Endowment is the Financial Engine of the University

The endowment has always provided the most significant source of revenue for the operating budget. Going back to the original establishment of the university, William Marsh Rice's founding endowment provided the fuel that propelled the university to where it is today. When Rice opened in 1912, it had a 10-member faculty, only 77 students and an endowment of \$7 million. Rice began charging tuition in 1965, and up until then, the endowment provided the bulk of the support the university required for operations.

Still today, the annual endowment distribution provides approximately 40% of annual operating revenues, while 25% comes from tuition, 19% from research grants and contracts, and the remaining support comes from gifts, auxiliaries and other revenues. The most recent comparative data from other university endowments over \$1 billion in value is as of Fiscal Year 2016, which ended June 30, 2016. That data, shown in the chart to the right, reveals 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

43 reporting institutions with endowments > \$1 billion



Source: Cambridge Associates (FY2016)



The Rice University Endowment

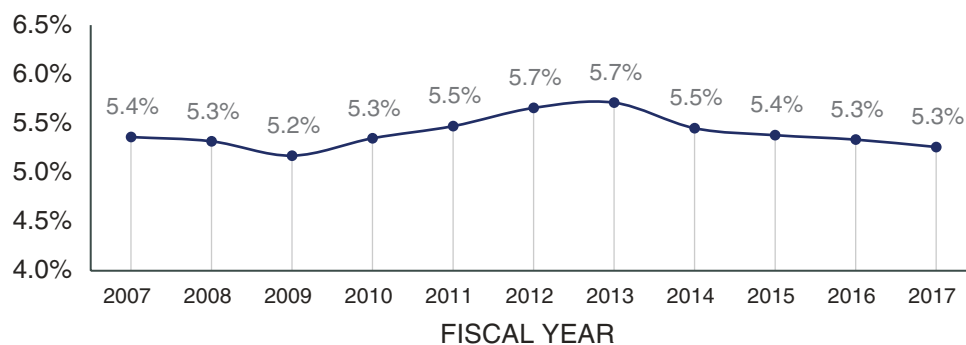
Endowment Spending Policy

Annual distributions from the endowment are the single largest revenue source for Rice, accounting for 40% of annual revenues. Tuition, research grants, auxiliary enterprises and current gifts make up most of the remaining revenues. The amount that universities spend annually from their endowments is governed by their endowment spending policy, which is designed to meet the needs of both current and future generations of students and faculty, ensuring reasonable year-over-year stability of endowment payouts, and preserving, if not growing, the purchasing power of the endowment. Rice's endowment spending policy is approved by the Board of Trustees, and the policy provides for an endowment spending level between 4.0% 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. By averaging the market value over a 3-year period, this smoothing calculation helps to dampen the volatility in the annual endowment distribution.



Endowment Spending Rate: 2007 - 2017

Spending as a % of the 3-Year Moving Average of Endowment Market Value



Rice Trust Inc.

Rice University is unique among its peers in that it owns a chartered trust company. Rice Trust Inc. (RTI), a nonprofit subsidiary established in 1971, serves as trustee of charitable trusts established by Rice's donors. With oversight from Rice Management Company staff and all the powers granted to a state trust company in Texas, it exists to further the university's mission, to create trusts that offer donors income payments and tax benefits, and to enable generous supporters to create their future legacy at Rice. As of June 30, 2017, RTI managed 60 trusts, with total assets of more than \$157 million. As each trust reaches the end of its term, the remaining funds are typically added to Rice's endowment to be used for scholarships; architecture, music and athletics programs; technology; and a range of initiatives that fuel the success of the university.

A charitable trust can be a wonderful way for you to make a deferred gift to benefit your favorite cause at Rice, while receiving payments for life or for a term of years. Trusts can be funded with cash or stocks, or even an asset that is less liquid, such as real estate, depending on the type of trust established. You will receive a charitable tax deduction at the time the trust is established and you may also receive special tax treatment that will help reduce your capital gains taxes in the event you contribute appreciated assets.

If you are interested in learning more about the possibility of establishing a charitable trust at Rice and the different options that may suit your financial needs, the Rice Office of Gift Planning (713-348-4624) is pleased to assist you. They can answer any questions and offer personal illustrations for you and your professional advisor to review.



Contact Us

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