

THE RICE UNIVERSITY FISCAL YEAR 2018



ENDOWMENT

Dear Supporters and Friends,

Rice's Vision for the Second Century, Second Decade, and The Rice Investment are defining a bold path forward for the university and creating excitement on campus and around the country. We are grateful for your philanthropy and support which, alongside the sound stewardship of our resources, enables Rice to be a leader in higher education.

The response to The Rice Investment has been overwhelmingly positive, and it brings us great pleasure to know we have dedicated supporters whose generosity contributes to our long tradition of affordability for our students. Our endowment pool includes nearly 500 need-based scholarships for undergraduate students. These investments remove barriers for families and enhance Rice's standing and prestige among the nation's top schools, and The Rice Investment looks to expand upon this foundational support by raising an additional \$150 million in endowed scholarships. We encourage you to visit envision.rice.edu/thericeinvestment to watch a moving video about the impact of this effort.

The endowment fosters excellence at Rice in so many additional ways, from the faculty chair-holders who drive research and teaching, to the groundbreaking programs and exhibitions at the Moody, to the difference-making team-based student work at the Oshman Engineering Design Kitchen. Rice simply would not be the institution that it is and will be without your enduring support.

In that spirit, we are pleased to present you with this report for fiscal year 2018 (July 1, 2017–June 30, 2018). This year was, indeed, marked by great strides for Rice, both in the growth of our endowment and its impact on our faculty and students. We remain deeply grateful to you for supporting Rice's future.

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





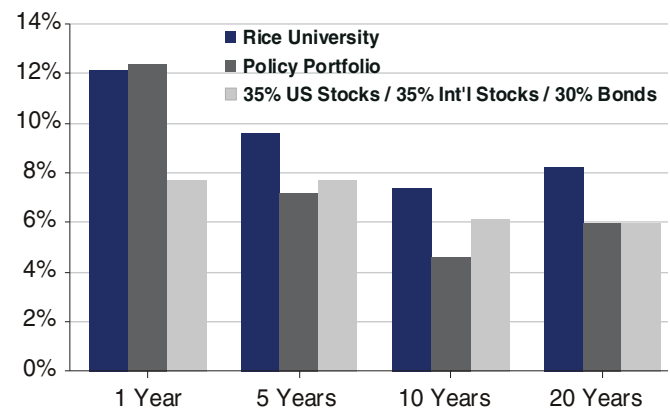
Current Year Performance

Rice University's endowment returned 12.4% for the fiscal year ending June 30, 2018. The endowment ended the fiscal year with a value of \$6.28 billion, which is an increase of \$463 million from the value at June 30, 2017. Returns from energy and natural resources, venture capital, private equity and real estate paced the endowment as the returns from each of these asset classes outperformed their respective policy benchmarks. The endowment's average annual return over the last three and five years is 8.7% and 9.6% respectively.

(\$ millions)	
Market value at June 30, 2017	\$5,814
Endowment investment returns	707
Endowment gifts and transfers	36
Endowment spending	(280)
Market value at June 30, 2018	\$6,277

Historical Endowment Performance

The Rice investment staff seeks out the best external investment managers to manage the endowment's assets. Since Rice is in the "forever" business, we seek to partner with managers who also share a long-term view of investing. Rice desires managers with 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 collectively and net of fees, these managers will earn the endowment a return in excess of the return on passive investments in stock and bond funds. This strategy has benefitted Rice and has consistently earned returns in excess of these indices.

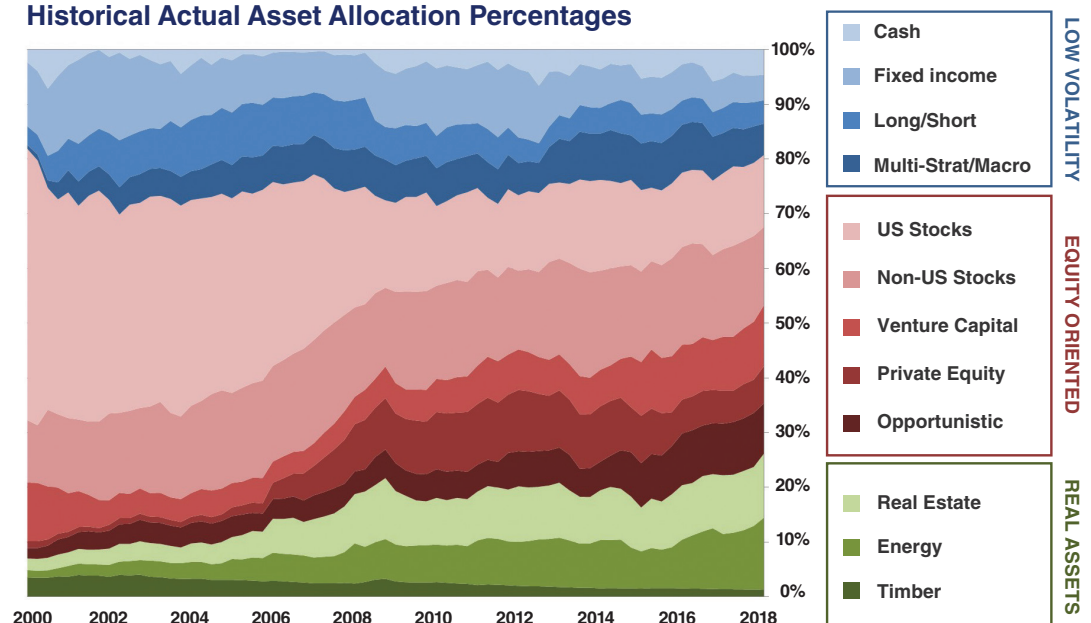


Asset Allocation

The Rice Management Company (RMC) is charged with providing fiduciary oversight of Rice University's endowment including asset allocation, the selection and termination of investment managers, performance monitoring and reporting to the RMC Board of Directors. Asset allocation, diversification and investment selection are all critical to driving long-term outperformance for the endowment. The RMC invests with external investment managers, as well as through directly held assets, primarily in real estate, oil and gas, and private equity. We believe seeking the best investments and teams is the key to success.

Our asset allocation choices reflect where our investment team believes we have excellent investment opportunities and partners. To support the in-perpetuity nature 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. The chart to the right shows Rice's actual asset allocation over the last eighteen years.

Historical Actual Asset Allocation Percentages



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, net of all fees, 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 strategic goals, including providing a transformative undergraduate education, building renowned graduate programs and investing in faculty, all of which are essential to Rice's mission.

Annual Compound Rates	5 Years	10 Years	20 Years
Investment Return (net of fees)	9.6%	7.5%	8.2%
Rice Spending Rate	4.8%	5.1%	4.9%
CPI Inflation Rate	1.5%	1.4%	2.2%
Real Return after Spending	3.0%	0.8%	1.0%



Asset Class Spotlight: Private Equity and Venture Capital

When William Marsh Rice initially contributed assets to the endowment over 100 years ago, his donations were intended to fund the university's endeavors far into the future. The modern private equity and venture capital portfolio carries forward this theme of a long-term return horizon. Investment periods often span over five years, and capital lock-ups can frequently extend over a decade.

Given the relatively illiquid nature of the private investment market, it is often categorized as "patient capital," and in return for such patience, returns can be rewarding. Rice's private equity portfolio has returned 15.2% annually over five years ending June 30, 2018 (180 basis points over the benchmark) and 22.5% annually in venture capital over the same period (510 basis points over the benchmark). Of the total endowment, the current allocation target for private equity and venture capital is 18% combined.

Rice pursues private equity and venture capital opportunities in the form of fund investments, co-investments and direct ownership. Our strategy is characterized by deep relationships with a small number of managers across the globe. In addition to being geographically diverse, the portfolio also reflects a diverse set of underlying industries, with a particular emphasis on technology and healthcare.



Midtown Innovation District

Rice Management Company is committed to transforming approximately 15 contiguous acres in Midtown Houston together with the historic Sears building into a central place that catalyzes innovation and inclusive growth. The Midtown Innovation District is a rare project that combines an excellent long-term investment opportunity for the endowment with a strategically important opportunity for Rice to engage Houston and empower its success, as envisioned in the Vision for the Second Century, Second Decade (V2C2). This is an endowment investment and ideally suited for the long-term nature of our investment capital. The site is located in close proximity to the METRORail Red Line and central to downtown, the Museum District and the Texas Medical Center, along with most of Houston's institutions of higher learning. The RMC envisions transforming the Sears building into the natural heart of a new innovation district that pairs a diversity of commercial uses with housing, iconic public space and best-in-class infrastructure. This district will leverage the region's unique economic and community strengths, bolstered by nearby educational, cultural and commercial institutions, to create a cutting-edge environment that fosters Houston's innovation ecosystem. The district aims to help transform Houston into a world leader in data science and digital technologies centered on energy, industrial, healthcare and logistics industries.

The Sears building will support all stages of the innovation lifecycle by integrating coworking spaces, accelerator/incubator services, classroom and event space, market-rate office spaces and prototyping facilities in an inclusive strategy to grow Houston's innovation ecosystem. Collaboration and cultivation of new ideas and concepts need to be supported by a robust offering of programs that target a region's strengths and expand the opportunity for interactions between different members of the Houston innovation economy.

The M.A. Wright Fund: Student Investment in Action

Although the M.A. Wright Fund is part of Rice's overall endowment, it is an investment fund separately managed by MBA students in the Jones Graduate School of Business. The fund runs a diversified balanced portfolio with 20 to 25 stocks and was valued at approximately \$1.8 million at June 30, 2018. The fund was established in 1995 with a generous gift from the family of Myron "Mike" A. Wright, the former president of Exxon (now ExxonMobil).

The Wright Fund curriculum is designed for students with a sincere interest in the markets who hope to pursue a career in securities research or investment management. The fund is a two-semester commitment, with half of the approximately 25 enrolled students rolling off each semester to provide for its continuity. In the first semester, students perform intensive research and analysis of individual stocks, making transaction recommendations for the entire fund's consideration, later serving as "portfolio managers" responsible for the allocation, strategy and risk-return management of one or two equity sectors. Two students serve as elected officers to manage the fund under the guidance of Jill Foote, CFA, Ph.D., director of the fund.

Guest speakers from local firms regularly visit the class and offer strategic insights and professional experiences. The fund is also frequently host to conferences, including the Texas Investment Portfolio Symposium (TIPS).



Contact Us

If you have any questions regarding this report, please contact Erin McDowell at stewardship@rice.edu or 713-348-4615.