THE RICE UNIVERSITY FISCAL YEAR 2016



Dear Supporters and Friends,

Edgar Odell Lovett, at the time of Rice University's founding, committed to creating a university to serve "your children, and your children's children and their children." With the generosity of our most dedicated supporters like you, we continue to hold true to this commitment now and into the future.

Today, the university's endowments provide financial support for student scholarships that ensure need-blind access and opportunity. They enable incredible faculty chairs to educate students and perform unparalleled research, whether it is the life-saving work of global-health pioneer and 2016 MacArthur Fellow Rebecca Richards-Kortum or Mikki Hebl's groundbreaking research exploring the brain and discrimination. Endowments also create fellowship opportunities for graduate students and enhance the array of departmental programs that maintain Rice's ability to produce leaders and leading research alike, including entrepreneurship programs, experiential learning opportunities, lectureships, study abroad, undergraduate research and lab facilities. It is endowed funds that allow Rice to be among the planet's greatest institutions of higher learning.

We are deeply grateful to each of you for your dedication to Rice's future through your endowment support, and we are pleased to present this report for fiscal year 2016 (July 1, 2015-June 30, 2016). In this report we will highlight the performance of the Rice Endowment and underscore its impact — and your impact — on Rice's success.

Thank you, again, for your generous investment in the current progress and future achievements of Rice University.

Sincerely,

Darrow Zeidenstein

Vice President for Development and Alumni Relations

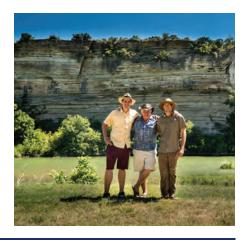
Jun K. Shacker
Allison Thacker

Chief Investment Officer and President, Rice Management Company

Vice President for Investments and Treasurer, Rice University









Investment Performance

Rice University's \$5.3 billion endowment returned 0.2%, net of fees, for the fiscal year ended June 30, 2016. Based on preliminary investment returns from other institutions, Rice's endowment return, while just above break even, ranks among the very best performers for the fiscal year. The best asset class performers for the current year were real estate, private equity, and fixed income. On the other hand, returns from hedge funds and public equities were the largest detractors.

Annual Compound Returns		3 Years	5 Years	10 Years
Rice Endowment	0.2%	7.3%	7.8%	7.1%
35% US Stocks / 35% International Stocks / 30% US Bonds	-0.8%	5.8%	5.6%	5.3%





Rice Management Company

The Rice Management Company (RMC) is a team of 23 professionals that provide fiduciary 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. Our mission is to be a stable source of funding for current operations, and to preserve and grow the purchasing power to benefit future generations of students and faculty. We manage asset allocation, the 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.

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, as well as other deferred gift accounts of the university.



Asset Class Spotlight: Energy & Natural Resources

Dating back to the founding of Rice, energy and natural resources has always been a fundamental component of the endowment's holdings. Rice's target allocation to energy and natural resources is 12% of the endowment: 10% in oil and gas related investments and 2% in timber. Rice's oil and gas investments include 87,000 directly-held mineral acres located primarily in Texas and Louisiana, and allocations to numerous private equity energy funds, and several joint ventures. Even with the drop in oil prices over the past two years, the energy portfolio has been the strongest performing asset class in the endowment over the past ten years, returning almost 15% annually over the period.



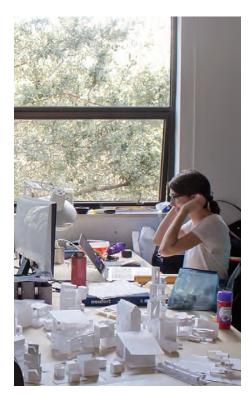


Rice's investment in timber dates back to 1904 when William Marsh Rice founded the Rice Institute with a grant that included 50,000 acres of timberland in southwestern Louisiana. This renewable investment also provides a carbon offset equal to more than half of the university's greenhouse gas emissions each year. In addition, the forest provides an important ecological service by being enrolled in the Louisiana Department of Wildlife and Fisheries "Louisiana Red-cockaded Woodpecker Safe Harbor Program." This legacy asset was part of the original endowment and was clear-cut to help finance the construction of Lovett Hall, the cornerstone building of the campus.

The Endowment Remains Critical to Rice's Mission

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 2/5 of the annual operating expenses of the university have been funded by the endowment's payout. Student tuition and fees, revenues from grants and contracts, and current spendable gifts, including the annual fund, represent the next largest sources of budget funding.

(\$ millions)	2016	2015	2014	2013	2012
Endowment Spending	\$266.4	\$249.3	\$232.7	\$229.1	\$220.1
Operating Expenses	\$662.1	\$626.5	\$594.9	\$569.5	\$547.5
Percentage Supported by Endowment	40.2%	39.8%	39.1%	40.2%	40.2%





Undergraduate Finance Club

The Rice Undergraduate Finance Club (RUFC), a recent initiative launched by students, provides members practical experience in money management and opportunities to apply theoretical knowledge, strengthen communication skills, and better prepare students for jobs in finance or business. The group provides a practical and goal-oriented introduction to the world of finance and financial management for all members. By giving students the chance to make real financial decisions, they teach lessons that can only be learned outside the classroom. The members work as part of a team, and each member learns to communicate effectively in a boardroom environment.

The RUFC is an undergraduate student managed investment fund that buys and sells stocks through a separately managed brokerage account that is part of the overall Rice Endowment. The funds managed have been given by donors for this specific purpose. Although the fund is relatively small, the goal is to grow the assets through additional gifts and appreciation, and eventually be able to provide an annual distribution from the fund to support need based scholarships at Rice. This endeavor is mentored by Allison Thacker, the President and Chief Investment Officer of Rice Management Company.

If you are interested in contributing to this investment fund, please contact giving@rice.edu.

Contact Us

If you have a question regarding this report, please contact us at stewardship@rice.edu
or 713-348-4383



Endowment Liquidity

Illiquidity is a risk present in, and often necessary to, managing a portfolio that generates sufficiently high returns to meet the needs of the university and to protect intergenerational equity for future students. Some asset classes such as equities and cash and fixed income provide high levels of immediate liquidity, often same day or certainly within a week. Private partnership investments in venture capital and private equity, energy, and real estate often have longer-term investment horizons that deploy capital for greater than a year before returns are realized and funds are returned to the investor. Given Rice's dependence on the endowment for operating budget support, asset allocation and investment decisions are carefully considered when assuring that Rice's portfolio always maintains sufficient liquidity.





