2000

Report from the Stanford Management Company

The stanford management company (smc) was established in 1991 to manage stanford's financial and real estate investment assets. smc is a division of the University with oversight by a Board of Directors appointed by the University Board of Trustees. The smc board consists of at least three trustees,several investment and real estate professionals, and University representatives. The Company directs approximately $11.0 billion of endowment and trust assets, working capital, temporarily invested expendable funds, and commercial real estate investments including the Stanford Research Park. These assets are managed by external equity investment managers,internal fixed income and cash managers,and internal and external real estate managers.

ENDOWMENT ASSET ALLOCATION smc oversees the University's $8.9 billion endowment. Given the perpetual nature of the University, the strategic investment horizon is very long-term. smc's objective is to develop and execute an investment strategy that generates optimal total return (income plus price appreciation) relative to the risk taken. The result is that most of Stanford's endowment ($8.6 billion referred to as the Merged Endowment Pool) is invested in multiple asset classes.

The asset classes of the Merged Endowment Pool and their target allocations at August 31, 2000 follow:

Asset Class	Strategic Allocation	Allocation Range
Domestic Stocks	25%	20% to 30%
International Stocks	22%	17% to 27%
Alternative Investments	25%	20% to 30%
Real Estate Equity	18%	13% to 23%
Domestic Fixed Income	10%	5% to 25%
Cash	0%	0% to 10%
	100%	

Alternative Investments include venture capital, buyouts, natural resources, and absolute return strategies; Real Estate Equity includes the Stanford Shopping Center, as well as other diversified real estate investments.

ENDOWMENT PERFORMANCE The u.s. economy continued to grow rapidly through the first half of the 1999–2000 fiscal year; however, signs of decelerating growth began to appear by mid-year. Growth stocks, particularly technology issues, continued their market leadership, though this market sector showed extreme volatility. Inflation-sensitive investments, such as commodities and real estate, advanced as well. This environment supported significant appreciation in the endowment, which had a total return for the year of 39.8%.

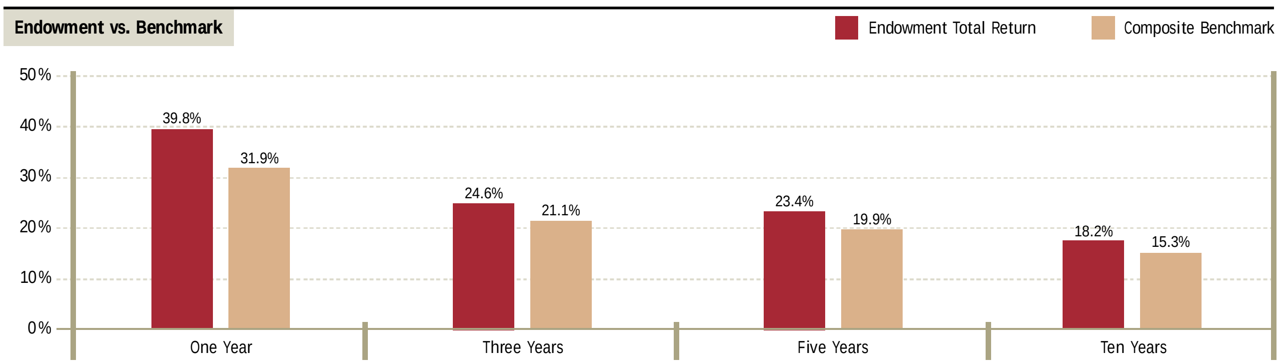
Endowment performance is assessed by comparing the total return for the endowment investment portfolio first to inflation to measure real return and then to comparable benchmarks to measure the effectiveness of smc's management.

ENDOWMENT PERFORMANCE COMPARED TO INFLATION Viewing the performance of Stanford's multi-asset strategy in a long-term context, the table below illustrates annual returns for various periods ending August 31, 2000. Stanford's real return objective is 6.25% net of management fees. If this real return target is achieved over time, the real value of the endowment will be maintained net of annual payouts to support endowed activities. The real return (net of management fees) has substantially exceeded the 6.25% target in all recent periods:

	One Year	Three Years	Five Years	Ten Years
Nominal Endowment Return	39.8%	24.6%	23.4%	18.2%
GDP Deflator [1]	1.9%	1.6%	1.7%	2.2%
Real Endowment Return	**37.9%**	**23.0%**	**21.7%**	**16.0%**

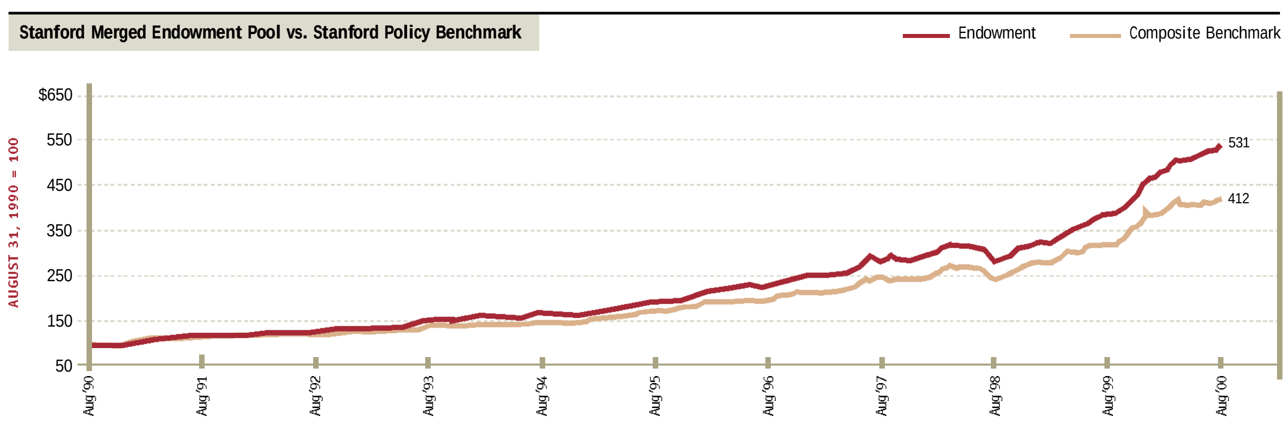
[1] The Gross Domestic Price (GDP) deflator, a measure of inflation, is through the quarter ending June 30, 2000.

ENDOWMENT PERFORMANCE COMPARED TO BENCHMARKS To evaluate the performance of the investment managers selected by Stanford, benchmarks that are appropriate measures for each individual asset class are chosen. For example, the benchmark for the Domestic Stocks asset class is the Russell 3000 Index. The composite benchmark return is a blending of the benchmark returns for each asset class weighted by the strategic allocations above. Actual performance net of management fees is compared to the composite benchmark for periods ending August 31, 2000:



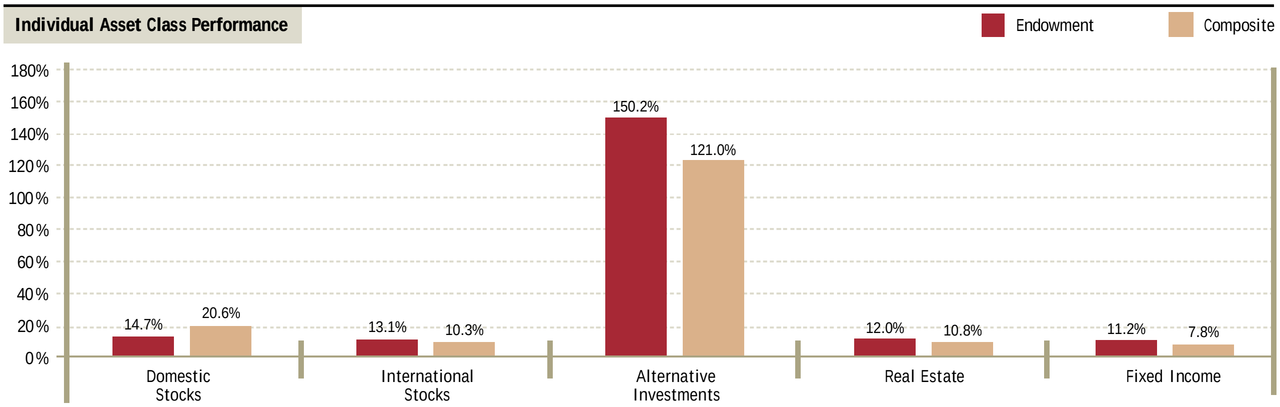
Stanford's long-term performance advantage demonstrates the University's effectiveness in implementing the multi-asset class approach through superior manager selection.

The cumulative return chart below compares the growth of $100 in Stanford's endowment with that of the composite benchmark over the past 10 years:



The performance advantage during this 10-year period relative to benchmark returns has added in excess of $1 billion to the value of the endowment.

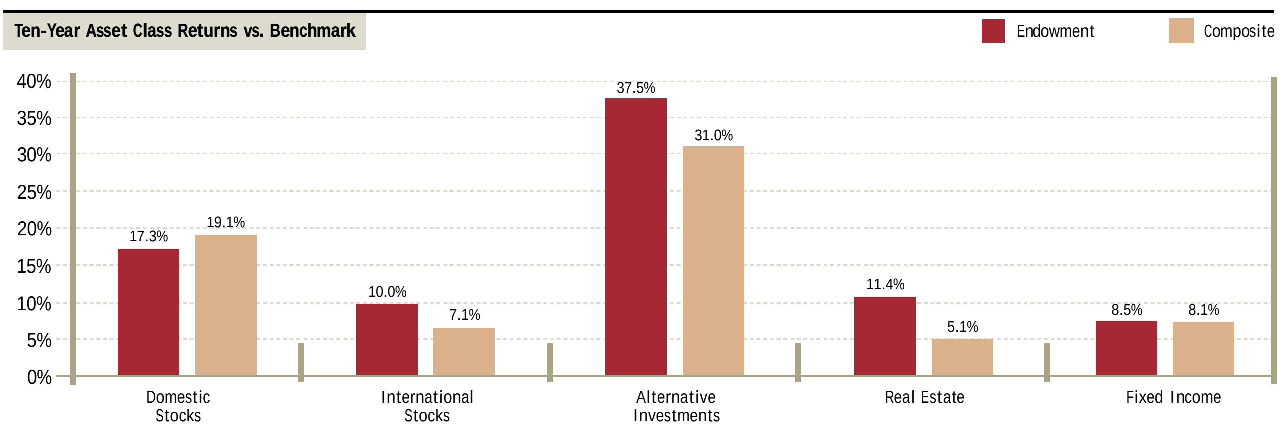
INDIVIDUAL ASSET CLASS PERFORMANCE The solid performance of all asset classes during the year ending August 31, 2000 was overshadowed only by the continued dramatic return of Alternative Investments. The graphs below show individual class returns relative to their benchmarks:



The accelerating rate of technology innovation and the institutionalization of the venture capital industry provided unprecedented opportunities and record amounts of capital invested. Public markets were characterized by strong proactive momentum in 1999 and early 2000, but reached an unsustained peak in March. Technology and other growth stock indices have fallen dramatically since then. Within Alternative Investments, the fiscal year return on Stanford's portfolio of venture funds was 248%, including realized gains of $965 million on distributed securities.

Stanford's domestic stock portfolio is deliberately over-weighted in value stocks to offset the growth stock-oriented characteristics of the public and private equity holdings within venture capital partnerships held in Alternative Investments. This value orientation resulted in a year of underperformance relative to its benchmark.

Over a 10-year period, each asset class exceeded its benchmark, except Domestic Stocks, again due to the over-weighting of value stocks. The total endowment return of 18.2% well outperformed the benchmark's 15.3% return:



I am privileged to have joined smc at the end of a great fiscal year. A strong foundation has been built by outgoing ceo, Laurie Hoagland, our portfolio management team, and the smc Board of Directors. Our goal is to innovate in ways designed to enhance overall endowment return and provide consistent and growing support of the University's programs.

Michael G. McCaffery
CEO, STANFORD MANAGEMENT COMPANY