2008

Report from the Stanford Management Company

The Stanford Management Company (SMC) was established in 1991 to manage Stanford's financial 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 investment and real estate professionals, the University president, the University chief financial officer, the chairman of the Board of Trustees and the CEO of SMC. The Board approves SMC asset allocation targets, oversees the hiring of external asset managers and evaluates the performance of SMC investments and professionals. SMC oversees approximately $22.1 billion of endowment and trust assets, temporarily invested expendable funds and commercial real estate investments.

The majority of the University's endowment assets is invested through the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately $20.6 billion as of June 30, 2008. To facilitate the comparison of returns with results of other endowments and foundations, MP performance measurements are calculated on the 12 months ended June 30, 2008. The following discussion of endowment performance relates solely to investments in the MP. The MP generated a 6.2% investment return for the 12 months ended June 30, 2008. Over the past 10 years, the MP achieved an annualized rate of return of 14.2%, growing from $4.8 billion to $20.6 billion. This investment performance places Stanford in the top 5% of all reporting university and college endowments during this period, according to the consulting firm Cambridge Associates.

The MP portfolio is constructed on a foundation of modern portfolio theory and strategic asset allocation. The portfolio is designed to optimize long-term returns, create consistent annual payouts to the University's operating budget and preserve purchasing power for future generations of Stanford faculty and students.

SMC, with assistance from its Board of Directors, actively manages the MP, selecting third-party managers to deploy the MP's capital. Stanford University's brand and SMC's reputation as a stable long-term source of capital enable SMC to gain access to the best third-party managers in the world. Within each asset class, we endeavor to place capital with a diversified set of managers across geographies and investment strategies. We seek to benefit from drivers of economic growth through a broadly diversified and hedged portfolio that is less subject to drawdown than the more concentrated portfolio of the late 1990's. SMC also seeks to add value through effective risk management, tactical portfolio rebalancing and opportunistic investment tilts.

STANFORD MP ASSET ALLOCATION Given the perpetual nature of the University, SMC's investment horizon is long-term. Our objective is to generate optimal total return relative to an appropriate level of risk for Stanford. Each June, SMC and the Board reevaluate portfolio asset allocation targets, as well as expected risk, return and correlation among asset classes. This annual review takes into account current market conditions and historical characteristics of each asset class. The strategic asset allocation targets for the MP as of June 30, 2008 are listed below:

LONG-TERM POLICY TARGETS

Long-Term Policy Targets	
Asset Class	**Strategic Allocation**
Public Equity	**37%**
Real Estate	**16%**
Private Equity	**12%**
Natural Resources	**7%**
Absolute Return	**18%**
Fixed Income	**10%**

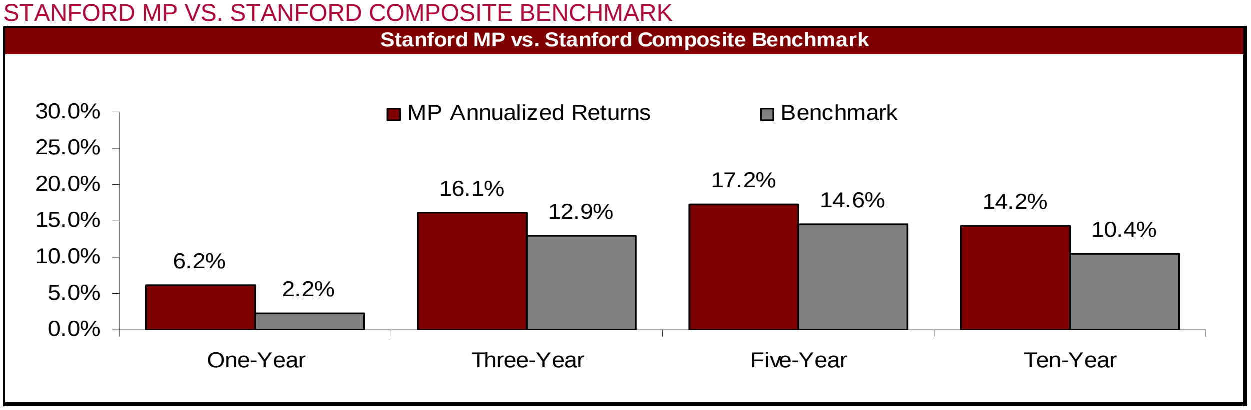
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2008.

MP PERFORMANCE COMPARED TO INFLATION

MP Performance Compared to Inflation				
	One-Year	**Three-Year**	**Five-Year**	**Ten-Year**
Nominal Endowment Return	6.2%	16.1%	17.2%	14.2%
GDP Deflator	2.0%	2.8%	2.8%	2.4%
Real Endowment Return	4.2%	13.3%	14.4%	11.8%

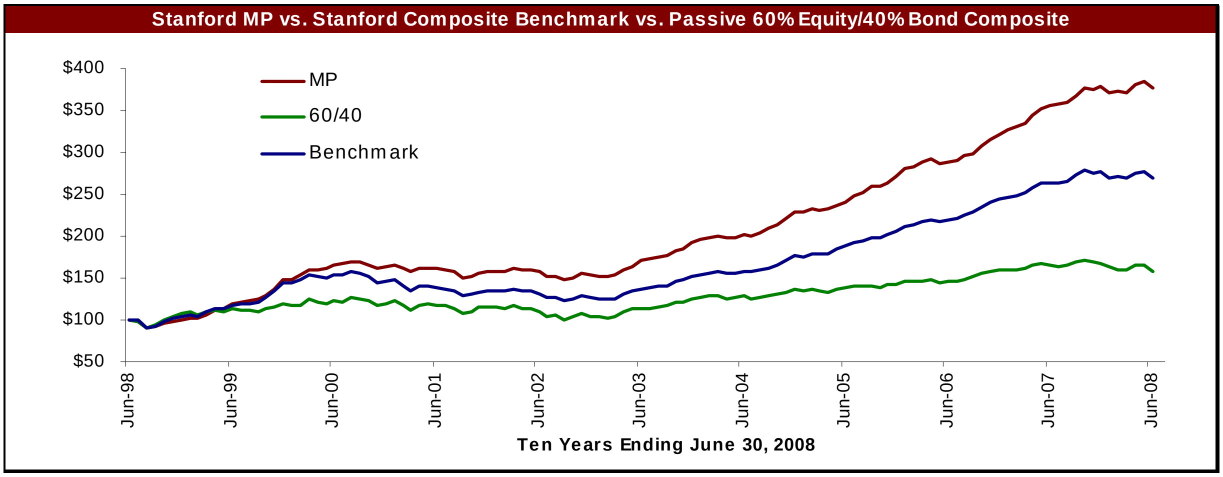
STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. The SMC Board reviews asset class benchmarks on an annual basis to ensure comparability. SMC compares overall MP performance to the composite benchmark return, which represents a blend of the benchmark returns for each asset class weighted by the strategic allocations above. In the table below, actual performance, net of management fees, is compared to the composite benchmark for periods ended June 30, 2008.

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK



SMC's effectiveness in implementing its investment strategies through top-level manager selection has resulted in consistent and long-term outperformance over the composite benchmark. This has added an excess of $5.2 billion to the value of the MP over this 10-year period. The cumulative return chart below compares the growth of $100 in Stanford's MP, a composite benchmark portfolio, and a 60% stock /40% bond portfolio over the past 10 years:

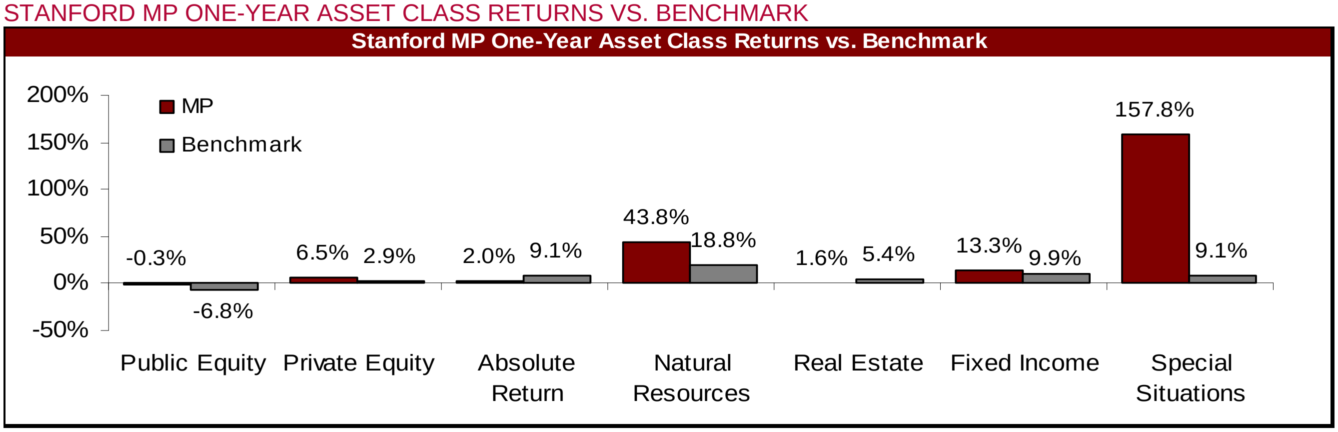
STANFORD MP VS. STANFORD COMPOSITE BENCHMARK & PASSIVE 60%EQUITY/40%BOND COMPOSITE



While absolute performance of the MP fell short of the strong gains of recent years, the relative one-year performance of the MP versus the benchmark was strong. Overall, the portfolio generated excess return of 4.0% over the benchmark. This excess return was driven by outperformance in a number of asset classes, especially Natural Resources, Fixed Income and Special Situations.

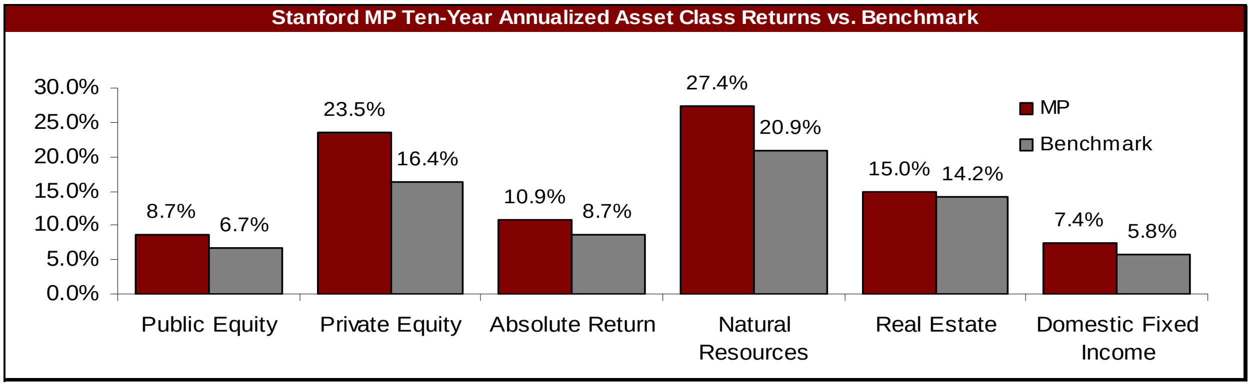
INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2008, relative to each asset class benchmark, is illustrated in the graph below:

STANFORD MP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK



As outlined below, the results of 10-year asset class returns, relative to benchmark, illustrate the value of SMC's ability to shift investment styles/strategies and identify outstanding managers in each asset class:

STANFORD MP ONE-YEAR ASSET CLASS RETURNS VS. BENCHMARK



Fiscal year 2008 was challenging for the endowment, as the benign credit climate which fostered economic growth and investment returns over the prior four years turned. The storm that began in the sub-prime mortgage space in early 2007 has intensified and spread to other parts of the economy. Credit markets have seized, the global financial system has entered an ongoing spiral of deleveraging and consolidation, the government has assumed an unprecedented activist role in bailing out struggling financial institutions, and global growth has begun to decline. Talk of markets decoupling has ended, and inflation fears were replaced by worry of deflationary prospects.

Through June 30, 2008, the Merged Pool fared comparatively well in a tough climate. During the same period, the S&P 500 declined 13.1%, the Lehman Aggregate returned 7.1%, and a 60/40 equity/fixed income mix would have returned -5.3%. We note that the environment remains extremely challenging and uncertain.

In the six months since the end of the 2008 fiscal year, the global economic environment has deteriorated dramatically. The pace of the unfolding events and the magnitude of market turbulence have been truly astounding. Virtually all asset classes have been unable to avoid losses. We recognize that the financial crisis may extend well into 2009 and potentially beyond. In this environment we continue to approach our portfolio with a long-term mindset. We remain focused on understanding and limiting our risks, on maintaining liquidity for risk management and to meet university obligations, and on positioning the MP to take advantage of opportunities as the current turmoil abates.

JOHN F. POWERS President and Chief Executive Officer Stanford Management Company