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 $15.0 billion of endowment and trust assets, which are temporarily invested expendable funds.

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 $14.5 billion as of June 30, 2009. To facilitate the comparison of returns with results of other endowments and foundations, MP performance measurements are calculated on the 12 months ending June 30, 2009. The following discussion of endowment performance relates solely to investments in the MP. The MP suffered a 25.9% investment loss for the 12 months ending June 30, 2009. Over the past 10 years, the MP achieved an annualized rate of return of 8.9%, growing from $5.8 billion to $14.5 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 1990s. 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, 2009, are listed below:

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%

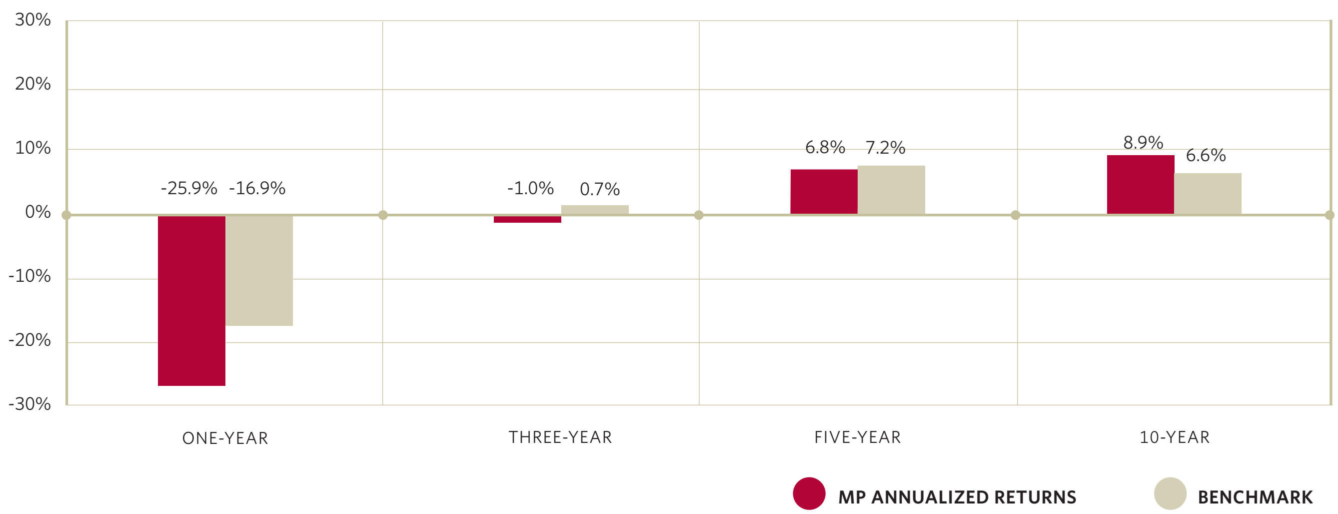
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2009.

MP PERFORMANCE COMPARED TO INFLATION

	ONE-YEAR	THREE-YEAR	FIVE-YEAR	10-YEAR
Nominal MP Return	-25.9%	-1.0%	6.8%	8.9%
GDP Deflator	1.5%	2.1%	2.6%	2.4%
Real Endowment Return	-27.4%	-3.1%	4.2%	6.5%

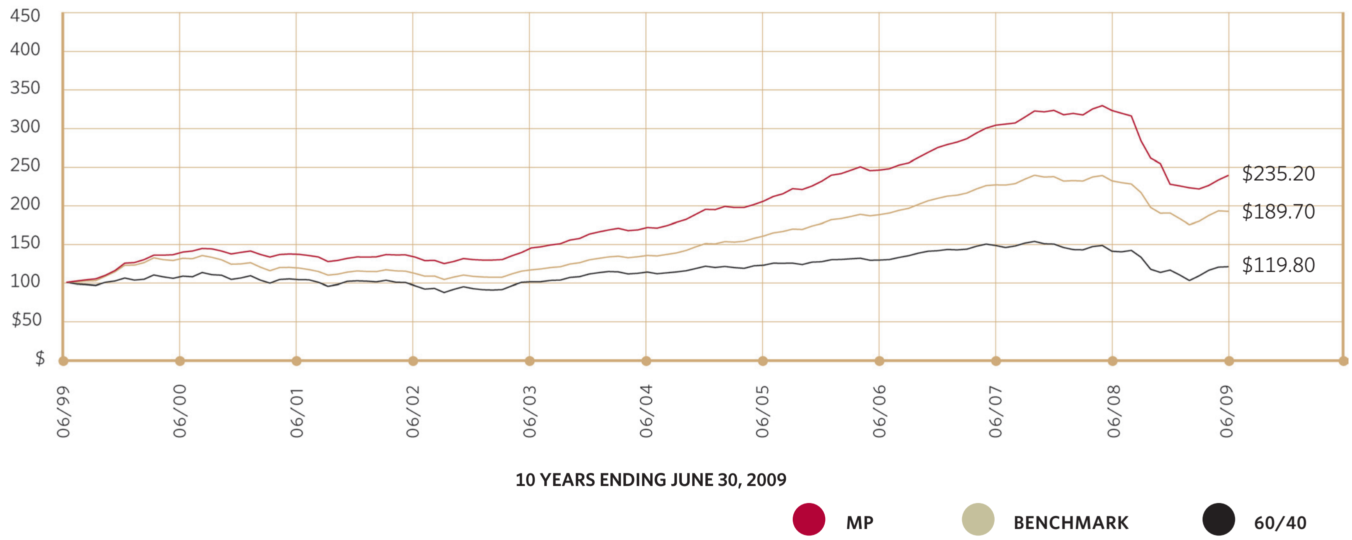
STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC evaluates the performance of investment managers by comparing their returns to benchmarks that are appropriate for each individual asset class. The SMC Board reviews asset class benchmarks on an annual basis to ensure comparability. SMC compares overall 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, 2009.

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 $2.6 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:

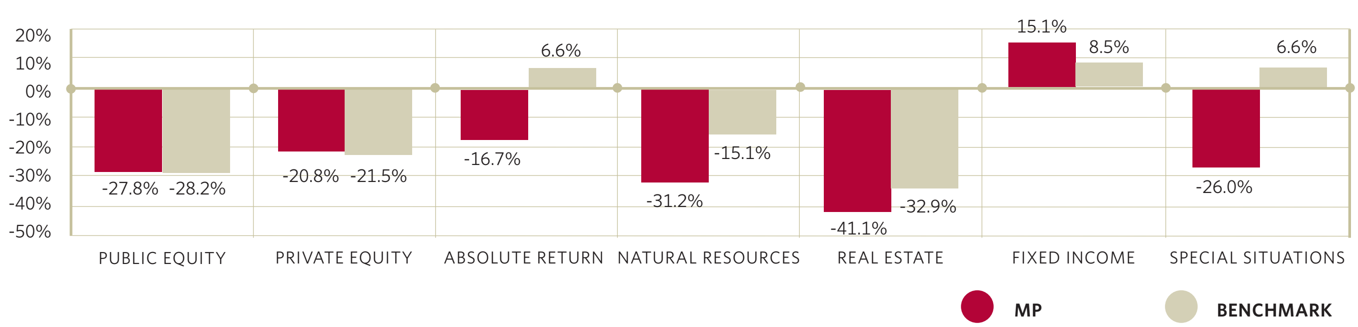
STANFORD MP VS. STANFORD BENCHMARK AND PASSIVE 60% EQUITY/40% BOND COMPOSITE



The relative one-year performance of the MP versus the benchmark was -9.0%.

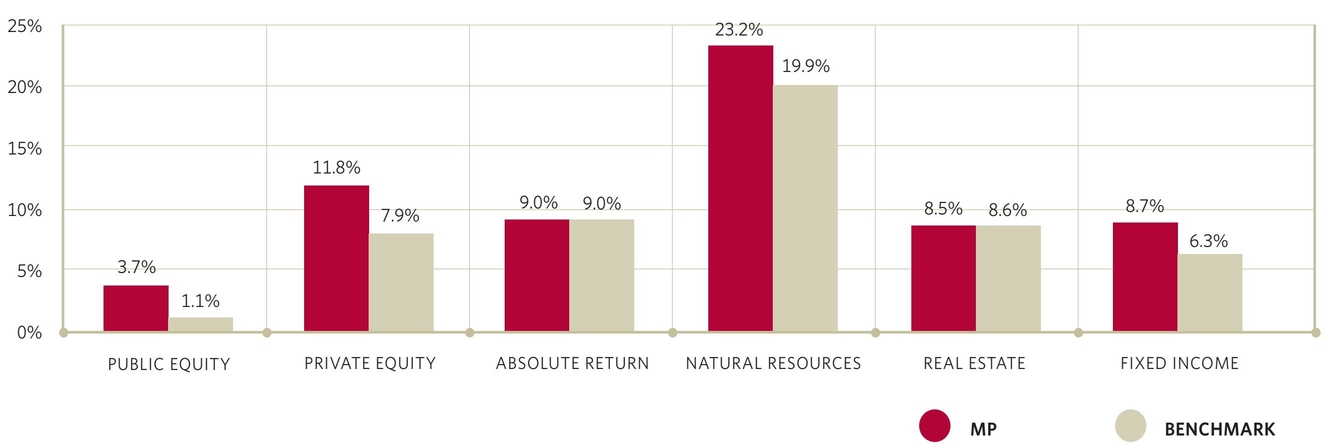
INDIVIDUAL ASSET CLASS PERFORMANCE The performance of individual asset classes for the 12 months ended June 30, 2009, relative to each asset class benchmark, is illustrated in the graph below:

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 10-YEAR ANNUALIZED ASSET CLASS RETURNS VS. BENCHMARK



In the 12 months through June 30, 2009, the Merged Pool returns were in line with those of our peers among the very largest endowments. During the same period, the S&P 500 Total Return Index declined 26.2%, the Barclays Aggregate returned 6.1%, and a 60/40 equity/fixed income mix would have returned -13.3%. The market environment going forward presents us with a unique opportunity set but remains uncertain.

As the global economy faced the worst economic and financial crisis since World War II, the MP experienced its most difficult year. In the period from September 2008 through March 2009, diversification failed to protect the portfolio as correlations rose dramatically across all asset classes.

During this time, we continued to meet our University obligations and investment commitments from the liquid portions of the portfolio. This reduced portfolio flexibility at a time when significant opportunities arose in the market. Planning, careful management and a sharp market rally since March 2009 have resulted in an improved liquidity profile for the MP. We remain confident in our ability to meet the ongoing operational and investment needs of the University.

We recognize that many challenges lie ahead for the global economy. In this environment, we are working to understand and limit risks, while still positioning the MP to take advantage of opportunities as we move toward recovery. Finally, we are also revisiting the events of the last 18 months in an effort to improve our ability to manage the portfolio in a time of crisis as well as in more benign markets. In the wake of events like those of 2008 and 2009, it is imperative to ask what lessons we have learned, while avoiding the inevitable tendency to overcorrect and overreact.

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