

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 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, evaluates the performance of SMC investments and professionals, and oversees management of significant portions of endowment, trust assets and expendable funds for the University and the Hospitals.

The majority of the University's endowment assets are invested through the Merged Pool (MP), which is a diversified portfolio of actively managed financial and real estate assets valued at approximately \$21.9 billion as of June 30, 2013. To facilitate the comparison of returns with other endowments and foundations, MP performance measurements are calculated on the 12 months ending June 30, 2013. The following discussion of endowment performance relates solely to investments in the MP. The MP realized a 12.2% investment gain for the 12 months ending June 30, 2013. Over the past 10 years, the MP achieved an annualized rate of return of 10.0%, growing from \$8.2 billion to \$21.9 billion.

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, primarily through 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 business unit, we endeavor to place capital with a diversified set of managers across geographies and investment strategies. 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 maximum total returns for an appropriate level of risk. SMC and the Board regularly reevaluate portfolio asset allocation targets, as well as expected risks, returns and correlations across business units. In addition, SMC reviews positioning relative to long-term policy targets on an ongoing basis and adjusts the portfolio in the context of current market conditions and relative opportunities. The strategic asset allocation targets for the MP as of June 30, 2013 are listed below:

LONG-TERM POLICY TARGETS

Business Unit	Long Term Policy Target
Public Equity	25%
Private Equity	23%
Absolute Return	22%
Natural Resources	12%
Real Estate	8%
Fixed Income	10%

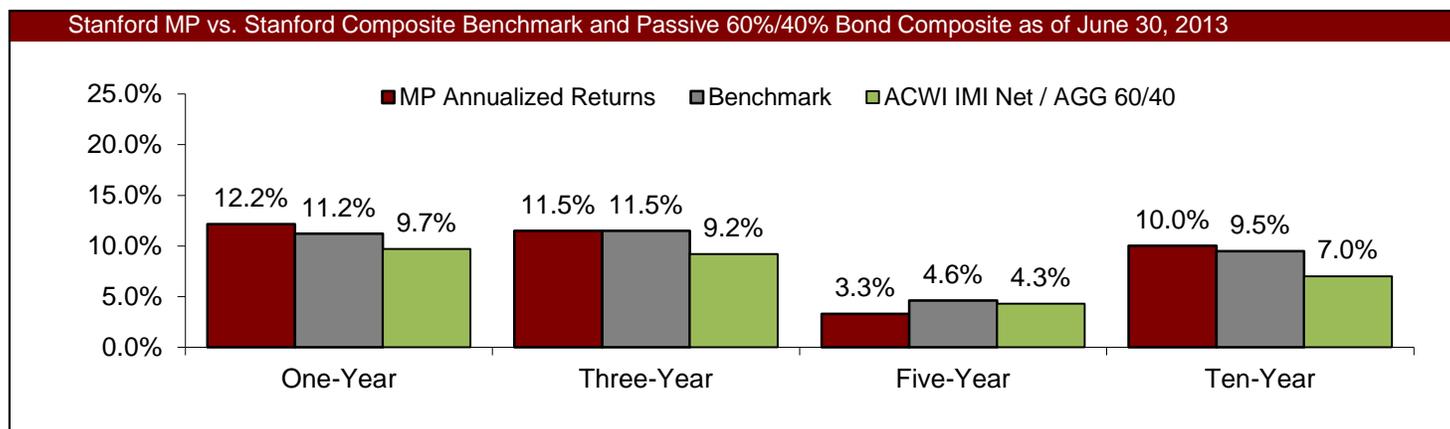
STANFORD MP PERFORMANCE COMPARED TO INFLATION The table below outlines annualized returns for various periods ending June 30, 2013.

MP Performance Compared to Inflation				
	One-Year	Three-Year	Five-Year	Ten-Year
Nominal Endowment Return	12.2%	11.5%	3.3%	10.0%
GDP Deflator	1.4%	1.7%	1.4%	2.1%
Real Endowment Return	10.8%	9.8%	1.9%	7.9%

STANFORD MP PERFORMANCE COMPARED TO BENCHMARKS SMC reviews overall MP performance against the composite benchmark return, which represents a blend of the benchmark returns for each business unit weighted by the strategic allocations above. The relative one-year performance of the MP versus the benchmark was 1.0%. In the table below, actual performance, net of management fees, is compared to the composite benchmark along with a 60% stock/40% bond portfolio for periods ended June 30, 2013.

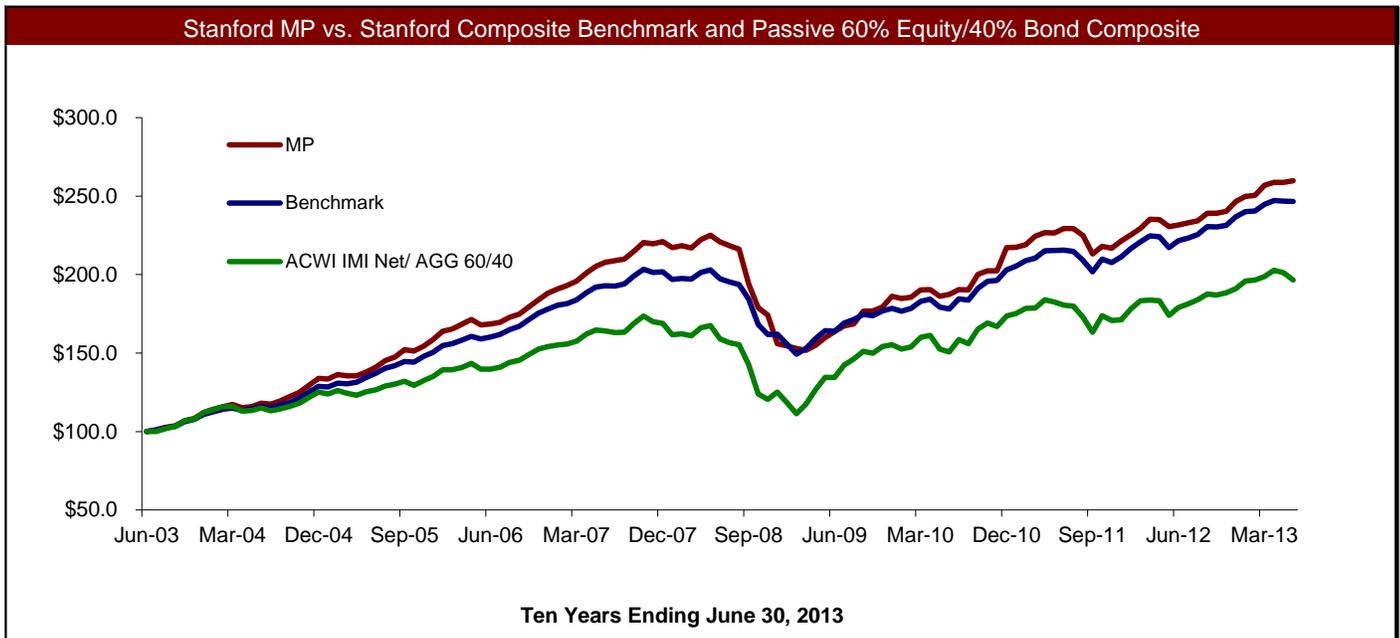
In the 12 months through June 30, 2013, the Merged Pool returns were 12.2%. During the same period, the MSCI ACWI IMI Net Index returned 17.1%, the Barclays Aggregate returned -0.7%, and a 60/40 equity/fixed income mix would have returned 9.7%. Following a period of synchronized global monetary policy, macroeconomic forces are finally leading to differentiation across asset types and regions. In our view, the upside to global equities has moderated, given the dramatic re-rating they have experienced over the past year. Both earnings growth from an improving global economy and potential further multiple expansion may drive returns from here. Equities remain attractive relative to developed market sovereign debt and liquid credit, where rate risks are asymmetric and spreads remain tight. We are preserving flexibility to respond to and take advantage of an increase in volatility as interest rates begin to normalize. Despite the lack of overly compelling opportunities from a top-down perspective, there continue to be compelling idiosyncratic opportunities; and we are confident in our managers' ability to identify such situations.

STANFORD MP VS. STANFORD COMPOSITE BENCHMARK

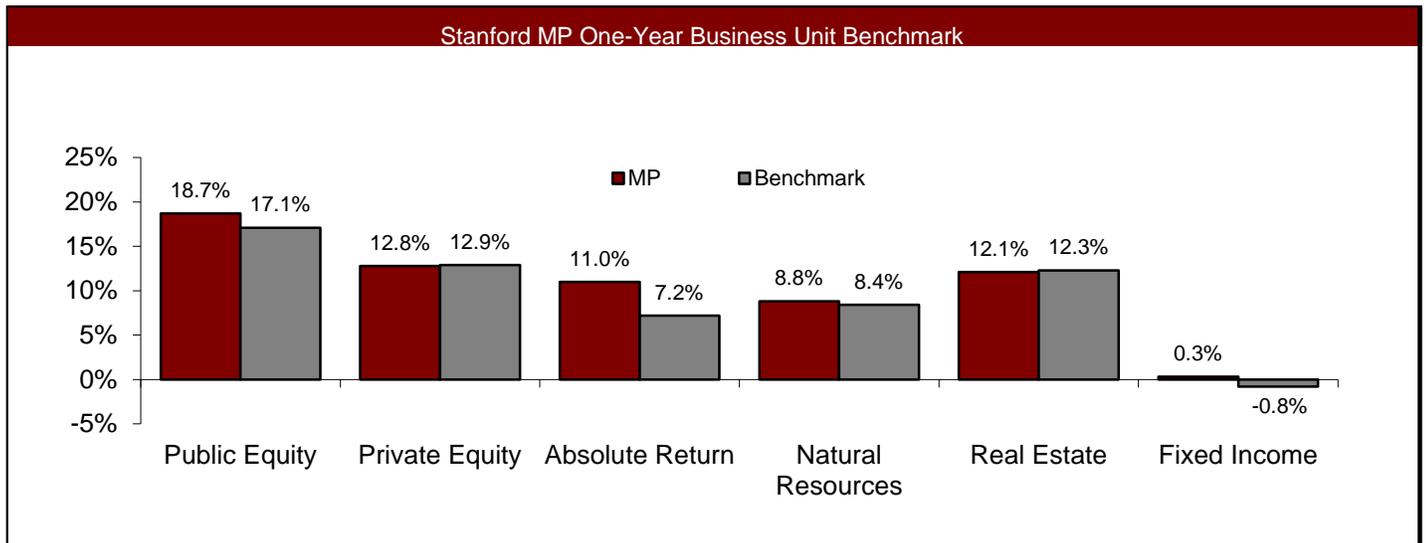


SMC's effectiveness in implementing its investment strategies through top-level manager selection has resulted in consistent and long-term outperformance versus relevant benchmarks. The cumulative return chart below compares the growth of \$100 in Stanford's MP, a composite benchmark portfolio, and a 60% stock/40% bond portfolio over the past 10 years:

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

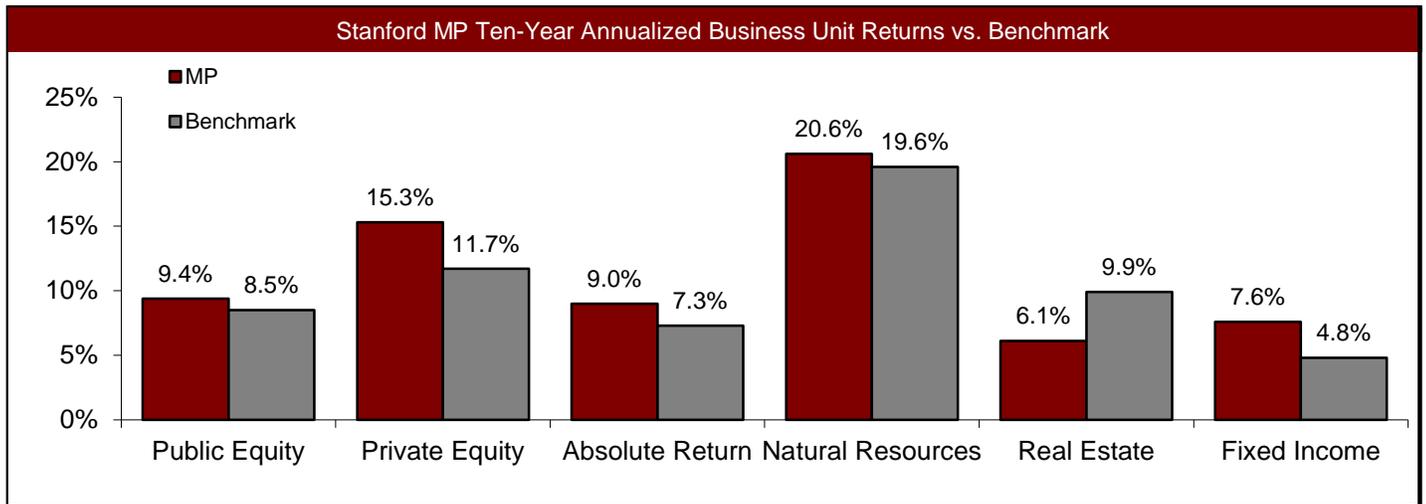


INDIVIDUAL BUSINESS UNIT PERFORMANCE SMC evaluates investment manager performance by comparing manager returns to respective, SMC Board approved benchmarks. The performance of individual business units for the 12 months ended June 30, 2013, relative to each business unit benchmark, is illustrated in the graph below:



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 business unit:

STANFORD MP TEN-YEAR BUSINESS UNIT RETURNS VS. BENCHMARK



The endowment provides valuable resources to support the University's mission through funding financial aid, faculty research, and innovative programs. Over the past ten years, the MP has grown from \$8.2 billion to \$21.9 billion, through strong investment returns and the generous support of alumni and friends. SMC is committed to building on past success to further improve our investment performance and enhance the University's mission of educating current students and future generations.

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