

Stanford University's Merged Pool (MP) generated a 7.0% net investment return for the 12-months ending June 30, 2015. The majority of Stanford University's endowment assets are invested in the MP¹, which is a diversified and global investment portfolio. Over the last 10 years, the MP realized an 8.7% annualized net return, outperforming both its composite benchmark and the median return of large endowments and foundations, as shown below. During this period, the MP grew from \$12.4 billion to \$26.0 billion, reflecting investment gains and new gifts to the endowment, net of annual spending to support the University's operations.

Table 1: Merged Pool Net Investment Return (periods ending June 30, 2015)

	One-Year	Three-Year	Five-Year	Ten-Year
Merged Pool Return	7.0%	11.9%	11.6%	8.7%
Composite Benchmark	3.3%	10.1%	10.7%	8.0%
Median of Large Endowments and Foundations ²	4.0%	10.6%	10.6%	7.3%

Stanford Management Company (SMC) manages the MP with the dual goals of preserving the purchasing power of the endowment for future generations of scholars and enabling a robust annual disbursement to the current operating budget. Thoughtfully managing the natural tension between these goals is a key objective of SMC. Pay-out from the endowment to the University grew over the last decade from \$0.5 billion to \$1.1 billion, as of August 31, 2015.

SMC's investment philosophy is based on modern portfolio theory coupled with a careful and practical appreciation for the global investment opportunity set. The portfolio is heavily oriented towards equities to provide a high expected return, and well-diversified to reduce risk and mitigate excess volatility. Befitting an institution with a multi-generational perspective, the portfolio is invested with a long-term horizon. SMC and the SMC Board of Directors³ regularly evaluate asset allocation targets, as seen in Table 2, as well as expected risks, including liquidity parameters.

¹The Merged Pool is Stanford's primary investment pool and includes most of the University's Endowment and Expendable Funds, as well as capital reserves from Stanford Health Care and Lucile Packard Children's Hospital.

²Wilshire Trust Universe Comparison Service -- Total Foundation and Endowment with assets greater than \$1 billion.

³SMC is a division of Stanford University, with oversight by a Board of Directors appointed by the University's Board of Trustees.

Table 2: Policy Asset Allocation (effective October 1, 2015)

Asset Class	Policy Target
Absolute Return	22%
Domestic Equity	10%
Fixed Income	5%
International Equity	19%
Natural Resources	10%
Private Equity	26%
<u>Real Estate</u>	<u>8%</u>
Total	100%

Within the confines of its policy asset allocation, SMC strives to add value through careful manager selection, working with expert partners that execute substantially all security level decisions in the portfolio. SMC's partners are selected on the basis of a rigorous and disciplined investment approach, superior judgment, and a strong alignment of interests with the University. SMC is currently in the process of concentrating its investment portfolio to drive additional performance through a focused and high-convicted approach.