Asset Class Overview

Domestic Equity

Domestic Equity gives Stanford exposure to corporate activity in the United States through publicly-traded companies.

SMC invests in domestic equity through both active and passive strategies. Active approaches are implemented through external partners who employ comprehensive, fundamental research to identify holdings that are attractively priced over a medium-term horizon. Passive investments reflect broad parts of the U.S. equity market and are generally implemented using low-cost index instruments.

Domestic Equity is currently targeted to be 8.0% of the Merged Pool.

International Equity

Comprising publicly-traded companies outside the U.S., International Equity provides exposure to foreign economic activity across both developed and emerging markets.

The asset class primarily includes active management strategies implemented by external partners. The inefficiency of many international equity markets provides talented stock pickers with a fruitful hunting ground to pursue their work. The University's international equity partners perform rigorous, fundamental analysis to identify attractive public holdings over a medium-term horizon. Because a holistic understanding of a country's legal, social, and cultural norms underpins accurate assessment of corporate activity within the country, our partners tend to be based in the region or country in which they invest. We hold passive international equity exposure when we have no suitable active management solution.

International Equity currently comprises 15.0% of the Merged Pool at its policy target, reflecting attractive opportunities in certain foreign markets.

Private Equity

Private Equity provides illiquid exposure to corporate activity in the U.S. and abroad. Both early-stage investments, in the form of venture capital, and later-stage investments, in the form of growth equity and leveraged buyouts, are included in the asset class.

Simultaneously offering the highest return and highest risk of any asset class in the Merged Pool, Private Equity demands superior execution. We carefully select external partners, who drive value through careful asset selection, price discipline, and strategic and operational initiatives. We seek to work with partners that make the businesses they own more valuable from a fundamental perspective, rather than by relying purely on financial engineering. Liquidity is monitored closely to ensure the University can meet its liabilities in stressful periods.

Private Equity is targeted to be 38.0% of the Merged Pool.

Real Assets

The Merged Pool's Real Assets portfolio, which consists of the Real Estate and Natural Resources sub-asset classes, is an important diversifying asset class that can help protect the University in inflationary environments.

Real Estate is focused on residential, retail, industrial, office, and leisure assets, primarily in the United States. Through external partners, we pursue value-added strategies in private real estate that attempt to drive incremental returns through superior deal sourcing and asset management. We will hold publicly-traded real estate securities at times as well. We endeavor to maintain a quality bias and to ensure an adequate degree of cash flow from our real estate holdings.

The University also has significant real estate holdings outside of the Merged Pool.

Like Real Estate, Natural Resources provides important diversifying benefits to the Merged Pool, particularly in inflationary environments. The University's resources holdings span timber, metals, conventional and renewable energy, and agriculture.

Stanford's natural resources holdings focus primarily on private producers of resources, rather than outright holdings of commodities themselves. In this way, we hope to earn an incremental return through superior selection and asset management above and beyond the commodity price movement. The natural resources portfolio principally focuses on the U.S. and other jurisdictions where the rule of law and property rights are respected.

We invest in resources with an awareness of climate change and the impact of carbon on the risk profile of resource investments. The University's Trustees elected to divest from direct thermal coal holdings in 2014 and recently announced a net-zero greenhouse-gas emissions target by 2050.

Real Assets is targeted to be 10.0% of the Merged Pool.

Absolute Return
Absolute Return is a collection of value-driven and event-driven strategies meant to provide attractive returns with low correlation to traditional equity and fixed income markets. Core strategies in the asset class include long/short equity, relative-value fixed income arbitrage, distressed investment, and special situation investment. The diversifying characteristics of the asset class can provide significant benefit to the Merged Pool as a whole.

The University's approach to absolute return is based on security-specific microeconomic analysis. Our partners perform exhaustive quantitative and qualitative research on equity and fixed income instruments to identify undervalued and overvalued assets that can be owned long or sold short. When coupled with disciplined portfolio management, long and short positions can drive returns that are independent from broader market movements. This diversification is critically important. We expect the "beta" of the asset class to equity markets to be at or below 0.3 over most trailing five-year periods, levels far lower than what would result from a simple cross-section of the hedge fund industry.

Stanford's focus on rigorous, bottom-up security selection with disciplined portfolio management precludes investments in the portions of the hedge fund complex that primarily rely on top-down, speculative, or technical analysis. We view strategies requiring material amounts of leverage, or that possess significant market exposure, with great caution.

Absolute Return is currently targeted to be 19.0% of the Merged Pool.

Fixed Income
Fixed Income is a relatively low return asset class meant to provide stable, liquid exposure to assets likely to hold their value in stressful or deflationary periods. For this reason, the asset class is comprised of U.S. Treasuries, which enjoy the full faith and credit of the U.S. Government.

Fixed Income and Cash have a combined policy target of 10.0% of the Merged Pool.