STANFORD MANAGEMENT COMPANY

Stanford University Investment Report

2022

Stanford Management Company manages Stanford University's Merged Pool with the dual goals of preserving the purchasing power of the Endowment for future generations of students and scholars and enabling a robust annual disbursement to the current operating budget.

Dear Friends and Colleagues,

In this brochure, we report investment results through June 30, 2022.

After last year's record gain, this year's -4.2% net investment return represents a modest retracement during a very difficult year for both equity and fixed income markets. Disciplined portfolio management helped preserve desired risk and return characteristics in Stanford's Merged Pool as volatile markets gyrated from gains in the first half of the year to sharp losses in the second half. It is reasonable to expect volatile conditions to continue, particularly as monetary conditions tighten in response to inflationary pressures.

As always, we weigh our investment work by its impact on Stanford's academic mission. This year, disbursements from the investment portfolio to the University operating budget will total $1.75 billion, providing a fifth of the resources necessary to run Stanford for the year. Since SMC's founding in 1991, total disbursements to the operating budget now exceed $21 billion.

Sincerely,

Robert F. Wallace
Chief Executive Officer
Stanford Management Company

portrait / John Todd
O'Donohue Family Stanford Educational Farm (front & back cover) / Joel Simon

TABLE OF CONTENTS

McMurtry Building for the Department of Art & Art History / Joel Simon

Stanford Management Company

INTRODUCTION

Stanford University established Stanford Management Company (SMC) in 1991 to manage the University's endowed funds. Today, SMC remains a key part of the University community and is the fiduciary for the $40.1 billion Merged Pool, which comprises the substantial majority of Stanford's investable assets.

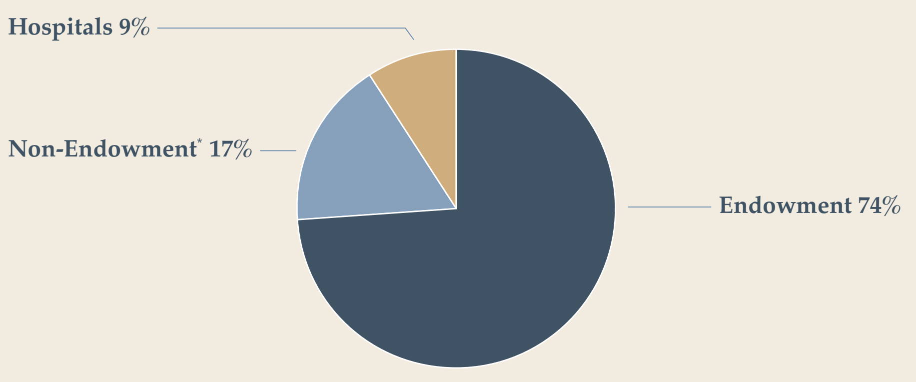
SMC is overseen by a board of directors appointed by the University's Trustees. The firm's 23-person investment team and 55-person total staff are led by Robert Wallace.

MERGED POOL

As of June 30, 2022, the Merged Pool was valued at $40.1 billion. Most of the Merged Pool are endowed funds, with the balance comprised of other funds the University chooses to invest for the long term. The resources of the Endowment and Merged Pool support financial aid and a wide array of important academic programs. Stanford's significant financial aid is enabled by the generosity of donors and the success of its investment program.

MERGED POOL COMPOSITION

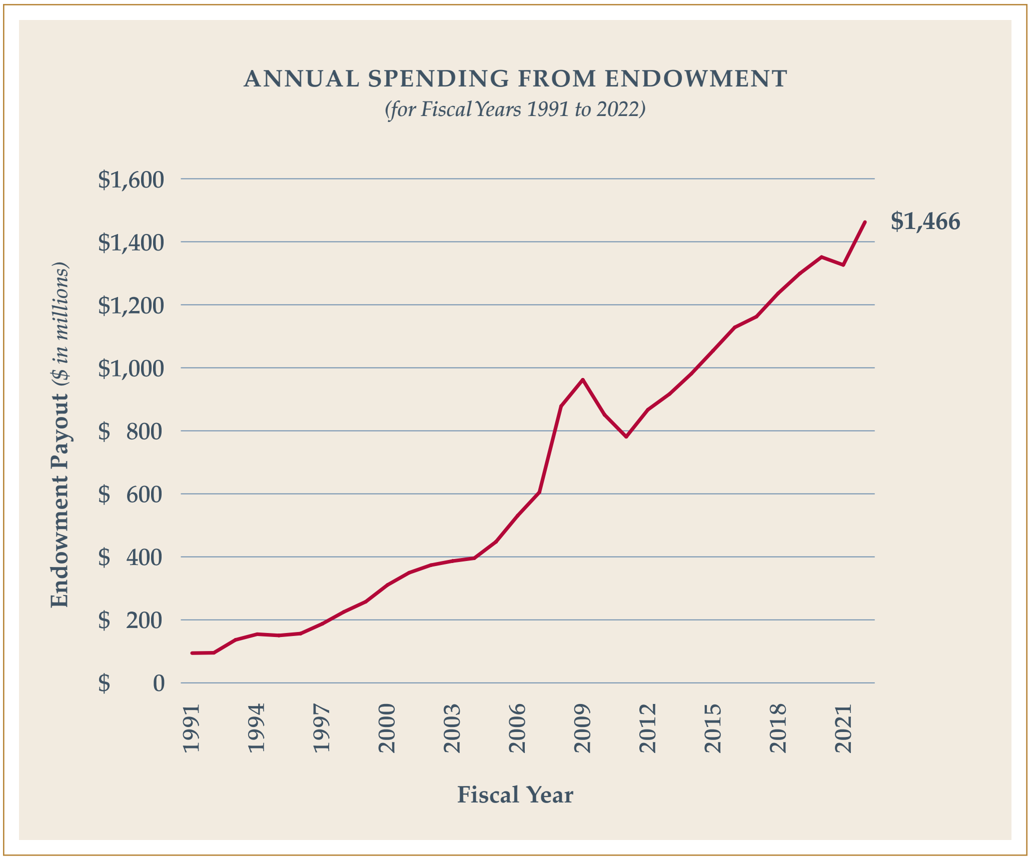
(as of August 31, 2022)



**Non-Endowment primarily includes Expendable Funds, Donor Advised Funds, Life Income Gifts, and Pending Funds.*
Note: The University's Fiscal Year ends August 31.

Shumway "Red Hoop" Fountain / Joel Simon

In Fiscal Year 2022, the Endowment disbursed $1.5 billion in financial aid, support for academic programs, and other current operations. This amount represented over 21% of the University's Fiscal Year 2022 operating expenses. Annual spending from the Endowment has increased more than fourteen-fold since SMC was established in 1991.



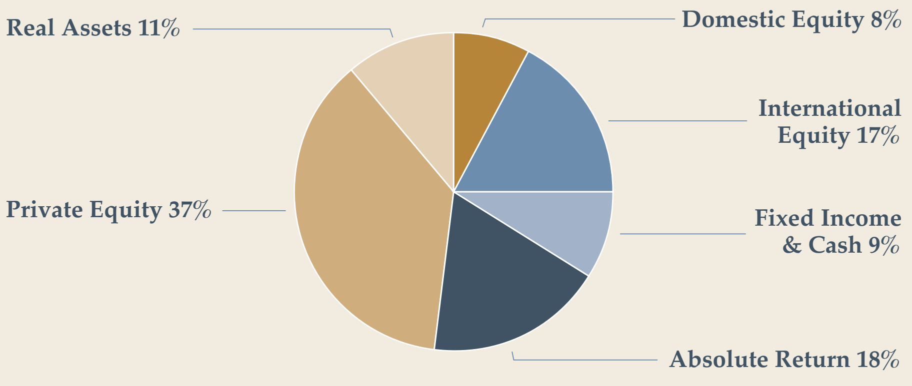
INVESTMENT STRATEGY

SMC's investment strategy is designed to provide material support to annual University operations while preserving the purchasing power of the Endowment for future generations of students and scholars. These dual goals dictate an investment program that is equity-oriented to generate sufficiently high long-term real returns, and well-diversified to dampen volatility and mitigate the risk of permanent loss of capital.

The Merged Pool contains a variety of equity-oriented strategies, including domestic and foreign public equities, real assets, and private equity. While the portfolio is primarily exposed to equity positions, fixed income and absolute return strategies that have low correlation to broader markets contribute to diversification. Acknowledging the University's long time horizon, the investment program is designed to accept a responsible degree of illiquidity to drive incremental returns. SMC's Policy Asset Allocation codifies its strategy with exposure targets to each major asset class, shown below.

MERGED POOL POLICY ASSET ALLOCATION

(for the period beginning July 1, 2022)



Based on mean-variance modeling, the current asset allocation is expected to generate an 8.2% real arithmetic annual return (after the impact of higher education inflation and all costs and fees) with annualized volatility of 15.0%, which translate to an expected compound real return of 7.1%. We believe these are reasonable risk-return assumptions when considering sufficiently long periods of time, but naturally expect material deviations over shorter time frames. We employ additional scenario analysis to forecast potential returns, volatility, and liquidity in stressful times not well captured by the normal distribution that underlies mean-variance analysis.

To maintain desired risk-return characteristics as market conditions change, SMC exercises discipline in managing asset class exposures and frequently rebalances the portfolio back to its policy targets. While policy targets are revisited only once per year, changes to exposures within asset classes occur more frequently as market opportunities develop. In this manner, we hope to take advantage of an ever-evolving bottom-up opportunity set while preserving overall discipline.

SMC primarily relies on carefully chosen external partners to select individual securities, allowing Stanford to benefit from specialized knowledge in asset classes that reward superior active management. While our partners pursue a range of investment strategies, all share a common belief in fundamental investment that incorporates exhaustive quantitative and qualitative research on specific and analyzable opportunities. This discipline fosters a value-sensitive and contrarian approach, which aligns well with Stanford's long-term focus. Our partners appreciate the importance of Stanford's mission, demonstrate a clear fiduciary mindset, and exercise consideration for human and environmental welfare.

The Iris & B. Gerald Cantor Center for Visual Arts / Joel Simon

Beginning in mid-2015, SMC initiated a substantial and ongoing effort to consolidate and upgrade its external partner roster to enhance performance relative to benchmark results. Our efforts include building fewer, more substantial positions with partners that demonstrate superior investment judgment, thorough processes, sound ethics, and a strong alignment of interests with the University. A concentrated set of investment partners brings the additional benefit of more frequent communication, leading to more fruitful and trustful partnerships. A better understanding of our partners' work allows us to invest with conviction and contrarianism. These efforts have added greatly to results in the last six years, and we believe they will continue to do so into the future.

In June 2020, the University Trustees committed the University to achieving at least a net-zero carbon profile by 2050, including the investment portfolio. This goal, which will require advances in disclosure and measurement of carbon by businesses around the world, will be approached in a fashion that concords with our Ethical Investment Framework. The Ethical Investment Framework was formally adopted by the Trustees in 2018 and is available on our website *(smc.stanford.edu)*.

For the 12 months ending June 30, 2022, the Merged Pool's -4.2% net performance exceeded a traditional "70/30" portfolio of global equities and high-quality domestic bonds by 10.4%. Performance surpassed the median endowment by 2.4% for the year.

Diversity, Equity, and Inclusion

SMC is committed to achieving the diversity that has been a Stanford core value since 1891, when the University opened its doors to men and women from a variety of religious, racial, and national backgrounds.

SMC's diversity efforts fall into three areas: fostering the diversity of SMC's professional staff, achieving greater diversity among the endowment's investment partners, and increasing diversity within the asset management industry as a whole. In each of these spheres, SMC is executing a concrete set of initiatives outlined in its Diversity, Equity & Inclusion Action Plan. While significant work remains, SMC's commitment of substantial resources to these efforts has resulted in notable progress.


Frost Amphitheater / *Andrew Brodhead*

SMC benefits from the current diversity of its staff: three-quarters of the 55 professionals at SMC are women or people of color, including more than half of its senior leadership team.

To maintain a pipeline of diverse talent, one of SMC's goals is to attract a broad pool of qualified early-career job applicants. SMC sponsors a summer internship program and a Stanford undergraduate seminar on endowment management, each attracting interested students from diverse backgrounds. In addition to posting these opportunities online, the SMC recruiting team offers information sessions and open houses coordinated with campus organizations like the Black Community Services Center, El Centro Chicano y Latino, and the Native American Cultural Center that serve the diverse student communities at Stanford.

Stanford ranks very high in investment manager diversity among its peers, according to a recent report by the Knight Foundation, which surveyed the gender, racial, and ethnic diversity of asset managers used by large university endowments.[1] Approximately 38% of the Merged Pool's U.S.-based assets are managed by partner firms that are led or co-led by diverse professionals. This puts Stanford in the vanguard among endowments, with a level of diversity that surpasses the 15 other institutions that participated in the Knight Foundation study, including Harvard, Princeton, and the University of Pennsylvania.

Firms led by Black, Latino, and Native American professionals remain relatively underrepresented, just as they are in the asset management industry overall. To address this imbalance, SMC is casting a wide net to find potential investment partners and has committed to considering all diverse-led U.S.-based investment managers that could be candidates for inclusion in the Merged Pool. The office has gathered information on more than 1,200 diverse managers and evaluated dozens of prospective partners. In the past year, Stanford has made substantial capital commitments to diverse managers that are new to the Endowment. Like all investment decisions, SMC made these commitments based on their merit and the value they could bring to the Endowment's portfolio.

SMC's work on diversity extends to having an impact on the industry from which it sources investment partners. Only 1.4% of financial assets in the United States are managed by diverse-led firms, according to the Knight Foundation. While Stanford's endowment has a much higher percentage of its portfolio managed by firms led by women and people of color, the future of the asset management industry depends on establishing and growing a greater number of such firms.

In 2021 Stanford began its Diverse Manager Initiative (DMI), a program to invest with promising diverse investment firms that have not yet achieved the scale or maturity to be considered for the Merged Pool. Launched with $50 million of non-endowed funds designated by Stanford's Board of Trustees, the DMI focuses on firms led by underrepresented minorities. The SMC investment team is available to advise DMI partner firms in addition to supporting them with Stanford's capital.

SMC's commitment to the diversity of its team, its investment partners, and the asset management industry is critical to the office's primary mission: stewardship of Stanford's endowed funds so that they can support the University today and in future. The Endowment's financial support for Stanford's talented and highly diverse student body — from which the next generation of investors will come — is an additional, fundamental way in which SMC's work advances diversity in its field.

[1] *https://knightfoundation.org/reports/knight-diversity-of-asset-managers-research-series-higher-education-interim-release/.*


BING CO

Asset Class Overview

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 37.0% 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 18.0% 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 17.0% of the Merged Pool at its policy target, reflecting attractive opportunities in certain foreign markets.

Roble Hall / *Andrew Brodhead*

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 11.0% 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 9.0% of the Merged Pool.

Green Library / Joel Simon

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.

Investment Performance

TRAILING ANNUALIZED RETURNS AS OF JUNE 30, 2022	1 YEAR	5 YEAR	10 YEAR	20 YEAR	SINCE INCEPTION†
Stanford's Merged Pool*	-4.2%	10.9%	10.2%	10.0%	11.6%
Cambridge Associates U.S. College and University Median	-6.6%	8.6%	8.4%	7.6%	9.1%
70% Equities / 30% Bonds**	-14.6%	5.1%	6.6%	6.5%	6.7%
Higher Education Price Index (HEPI)	5.2%	3.1%	2.6%	3.0%	3.1%

†Inception date of July 1, 1991.

**June Year 2022 Merged Pool performance is reported net of all internal and external fees and costs.*

***Represents a passively managed portfolio consisting of 70% MSCI ACWI IMI Net and 30% Bloomberg Barclays U.S. Aggregate Bond Index, rebalanced monthly.*

Investment Performance

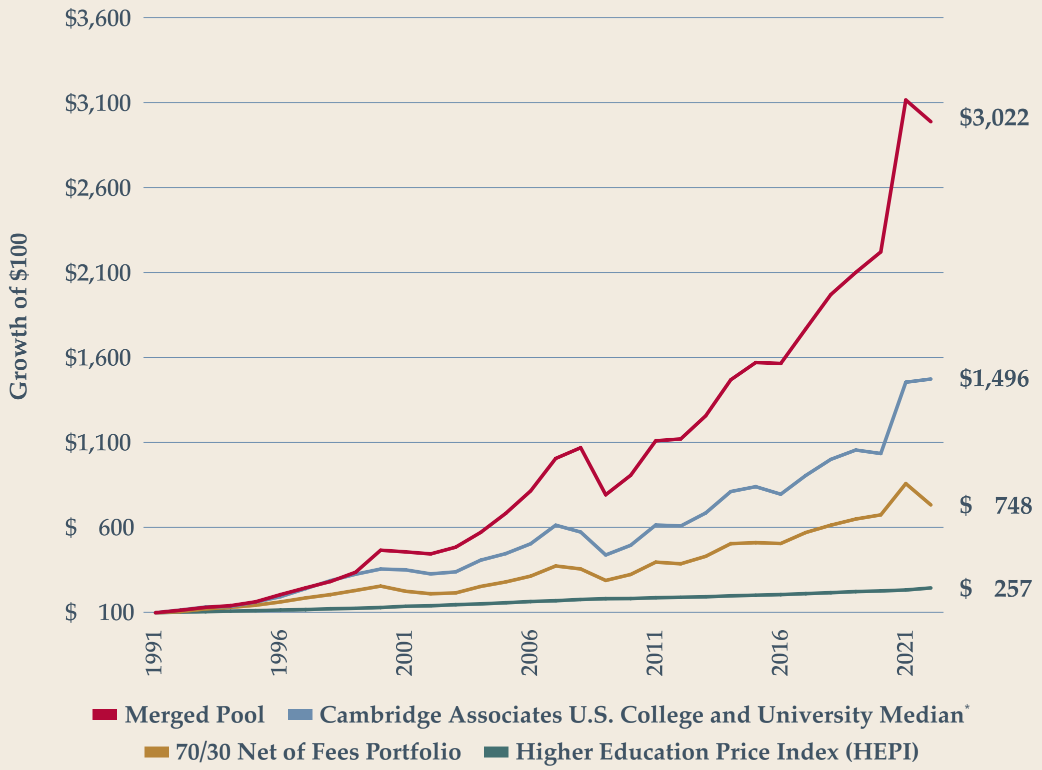
For the 12 months ending June 30, 2022, the Merged Pool generated a -4.2% return net of all internal and external fees and costs. This result exceeded the -6.6% median return for U.S. colleges and universities* and outperformed the -14.6% return for a traditional "70/30" portfolio of global equities and high-quality domestic bonds.

Stanford Management Company has delivered strong results since its inception in 1991. Over the 31-year period, the Merged Pool has earned an annualized net return of 11.6%, exceeding the median of a broad group of colleges and universities by 2.5% annually, and surpassing the passive "70/30" portfolio by 4.9% annually.

SMC's long-term investment performance has added substantial value versus peers and a conventional passive portfolio of equities and bonds, as shown on the next page. In the first column, we compare SMC's historical return versus two benchmarks to calculate differences in ending

MERGED POOL GROWTH OF $100

(for the period July 1, 1991 to June 30, 2022)



*As reported by Cambridge Associates.

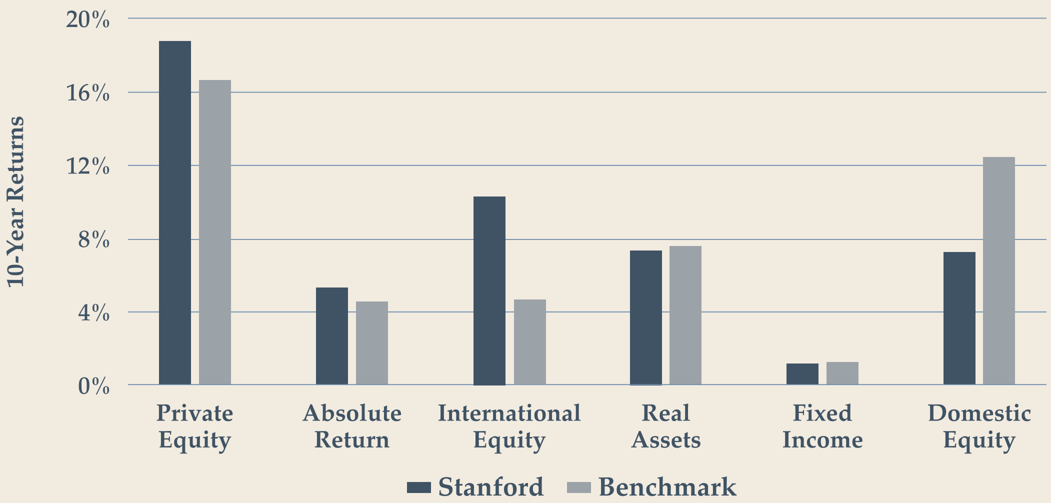
values. In the second column, we use the University's historical net payout rate from the Merged Pool to estimate cumulative payout differences. The differences in ending value and net payout equal total value-added.

DOLLAR VALUE-ADDED SINCE INCEPTION* ($ in billions)	Ending Value	+	Net Payout	=	Total Value-Added
Stanford's Merged Pool					
vs. Cambridge Associates U.S. College and University Median	$12.9		$2.8		$15.7
vs. 70% Equities / 30% Bonds**	$30.6		$4.8		$35.4

**Inception date of July 1991. Analysis reflects historical net payout averages. **Represents a passively managed portfolio consisting of 70% MSCI ACWI IMI Net and 30% Bloomberg Barclays U.S. Aggregate Bond Index, rebalanced monthly.*

In absolute terms, the last decade has seen strong relative performance from Private Equity, Absolute Return, and International Equity, the three largest asset classes in the Merged Pool. Two smaller asset classes, Real Assets and Domestic Equity, have underperformed their benchmarks over the decade.

10-YEAR ASSET CLASS ANNUALIZED RETURNS VS. BENCHMARKS*



BENCHMARKS

Private Equity**	Cambridge Associates Private Equity & Venture Capital Index**
Absolute Return	Credit Suisse Hedge Fund Index
International Equity	MSCI ACWI ex-USA Investable Market Index (IMI)***
Real Assets**	Cambridge Associates Real Estate & Natural Resources Blended Index**
Fixed Income	Bloomberg Barclays Short Treasury / 1-3 Year U.S. Treasury Blended Index***
Domestic Equity	Russell 3000 Index***

**Asset classes shown in order of policy target weights. **Dollar-weighted returns. ***Adjusted for lowest reasonable fee for equivalent passive vehicle.*

Investment Team

Robert Wallace
Chief Executive Officer

Jay Kang
Senior Managing Director

Michael Lee
Managing Director

Becca Levin *B.A. 2007, M.B.A. 2012, M.S. 2012*[*]
Managing Director

Yidi Lu[†]
Managing Director

Mary Mei
Managing Director

Greg Milani *M.B.A. 1996, M.A. 1996*
Managing Director, Special Programs

Charles Moore *J.D. 1995*
Managing Director

Steven Wright *B.A. 2008*
Managing Director

David Captain
Director

Blair Critchlow *B.A. 2008*
Director

Rick Devlin
Director

Julian Skotheim
Associate Director

Andrew Elott *B.A. 2017*
Associate

Emma Hardimon *B.A. 2018*
Associate

Charles Killebrew *B.S. 2018*
Associate

Jennifer Peterson *B.A. 2018*
Associate

Federica Roth *B.S. 2018*
Associate

Megan Byrnes *B.S. 2020*
Senior Analyst

Isaac Arocha *B.A. 2022, M.S. 2022*
Analyst

Thea Rosenberg *B.S. 2021, M.S. 2022*
Analyst

Ashley Volpenhein *B.S. 2021*
Analyst

Tiffany Zhang *B.A. 2022*
Analyst

Eric Wright *A.B. 1985*
Senior Legal Counsel

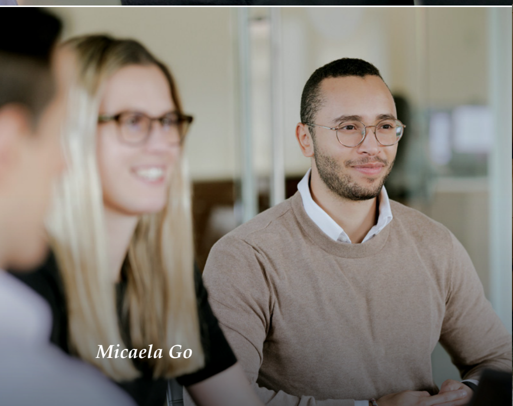
Eunice Kim
Senior Legal Counsel

Mark Tannahill
Senior Legal Counsel

---

[*] *Stanford degrees shown.*
[†] *Yidi Lu is a Managing Director of the Stanford (Beijing) Consulting Co., Ltd.*

"Always be gentle in manner, resolute in purpose, and you will develop characters on which others can depend." JANE STANFORD



Micaela Go

STANFORD MANAGEMENT COMPANY

635 Knight Way | Stanford, CA 94305-7297 | +1.650.721.2200 | smc.stanford.edu