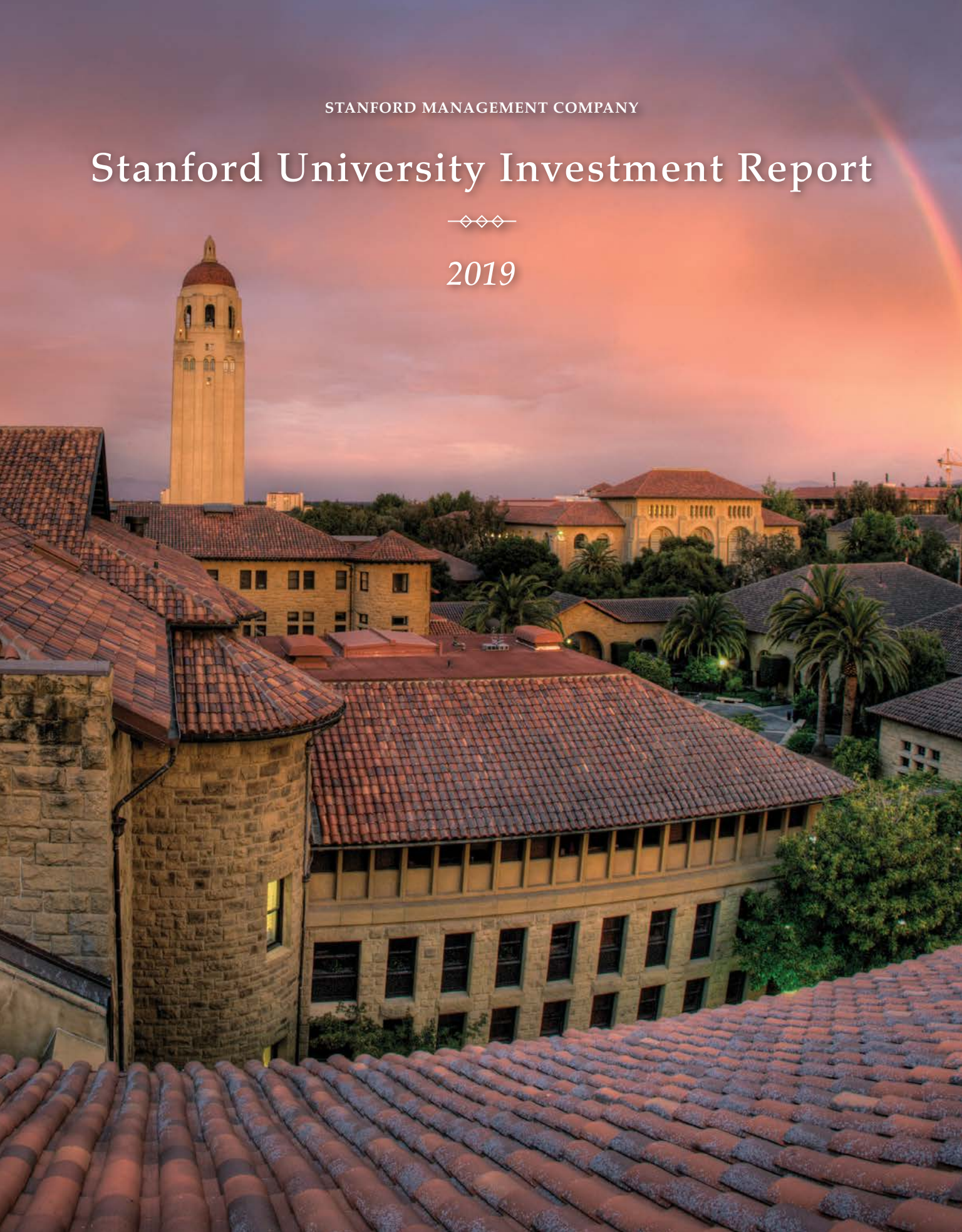


STANFORD MANAGEMENT COMPANY

Stanford University Investment Report



2019





INVESTMENT PERFORMANCE

TRAILING ANNUALIZED RETURNS AS OF JUNE 30, 2019	1 YEAR	10 YEAR	20 YEAR	SINCE INCEPTION [†]
Stanford's Merged Pool*	6.5%	10.2%	9.6%	11.5%
Cambridge Associates U.S. Colleges and Universities Median	5.3%	8.6%	6.3%	8.9%
70% Equities / 30% Bonds**	5.8%	8.5%	5.3%	7.0%
Higher Education Price Index (HEPI)	2.6%	2.2%	3.1%	3.1%

[†]Inception date of July 1, 1991.

*June Year 2019 Merged Pool performance is reported net of all internal and external fees and costs.

**Adjusted for lowest reasonable fee for equivalent passive vehicle.



Dear Friends,

The University's \$29.6 billion Merged Pool contains endowment and other long-term funds that support more than 16,500 students and 2,200 faculty and academic staff as they pursue research and scholarship across a wide range of disciplines. This valuable resource, which will disburse \$1.4 billion to the operating budget in the current fiscal year, is a key pillar of Stanford's daily work and its future aspirations.

As Stanford embarks on its new Long-Range Vision, which envisages exciting advancements in the University's research and teaching capabilities, careful stewardship of our financial resources is vital. The decade-plus boom in asset prices that followed the financial crisis of 2007-08 has benefited endowed institutions, including Stanford. While we naturally hope for a repeat in the coming decade, we recognize that the investment landscape shifts over market cycles. As such, a disciplined and diversified portfolio strategy will likely be an important contributor to the University's success.

Sincerely,

A handwritten signature in blue ink, reading "Marc Tessier-Lavigne".

Marc Tessier-Lavigne
President
Stanford University

A handwritten signature in blue ink, reading "Jeffrey S. Raikes".

Jeffrey S. Raikes
Chair, Board of Trustees
Stanford University



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, 2019.

In addition to our standard reporting, we provide an update on our work over the last four years to concentrate the Merged Pool portfolio to enhance its return potential. This work has proceeded well and had impacted roughly 60% of the overall portfolio as of June 30, 2019. The number of active partners within each asset class has been reduced, allowing us to build stronger and more knowledgeable relationships with talented specialist investors. A focused portfolio also more easily allows us to invest with discipline and conviction through market cycles, since we are fully aware of our partners' capabilities and their evolving opportunity sets. Finally, in being more selective, we expect to raise the overall quality of the portfolio.

Though more remains to be done, we believe this work, which has already had a beneficial impact on performance, will be important to the University's investment success in the coming decade.

Sincerely,

A handwritten signature in blue ink that reads "Robert F. Wallace".

Robert F. Wallace
Chief Executive Officer
Stanford Management Company



TABLE OF CONTENTS

Stanford Management Company / 5

Progress Update / 9

Asset Class Overview / 11

Valuation / 14

Investment Performance / 16

Spotlight On Athletics / 19

Investment Team / 20



Stanford Management Company



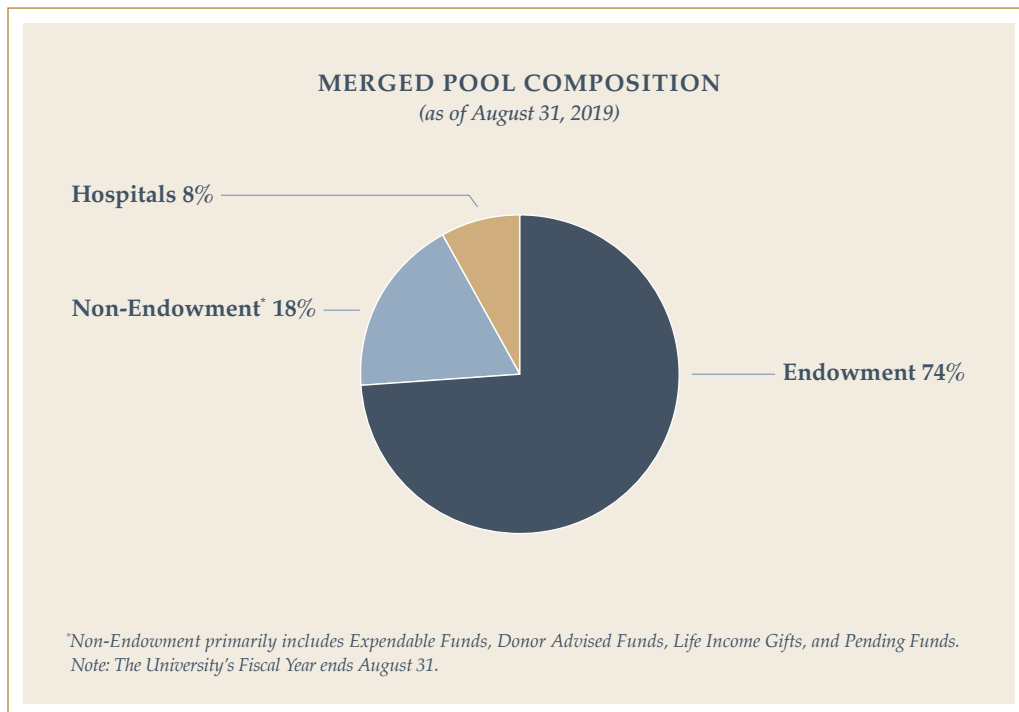
INTRODUCTION

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 \$29.6 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 19-person investment team and 50-person total staff are led by Robert Wallace.

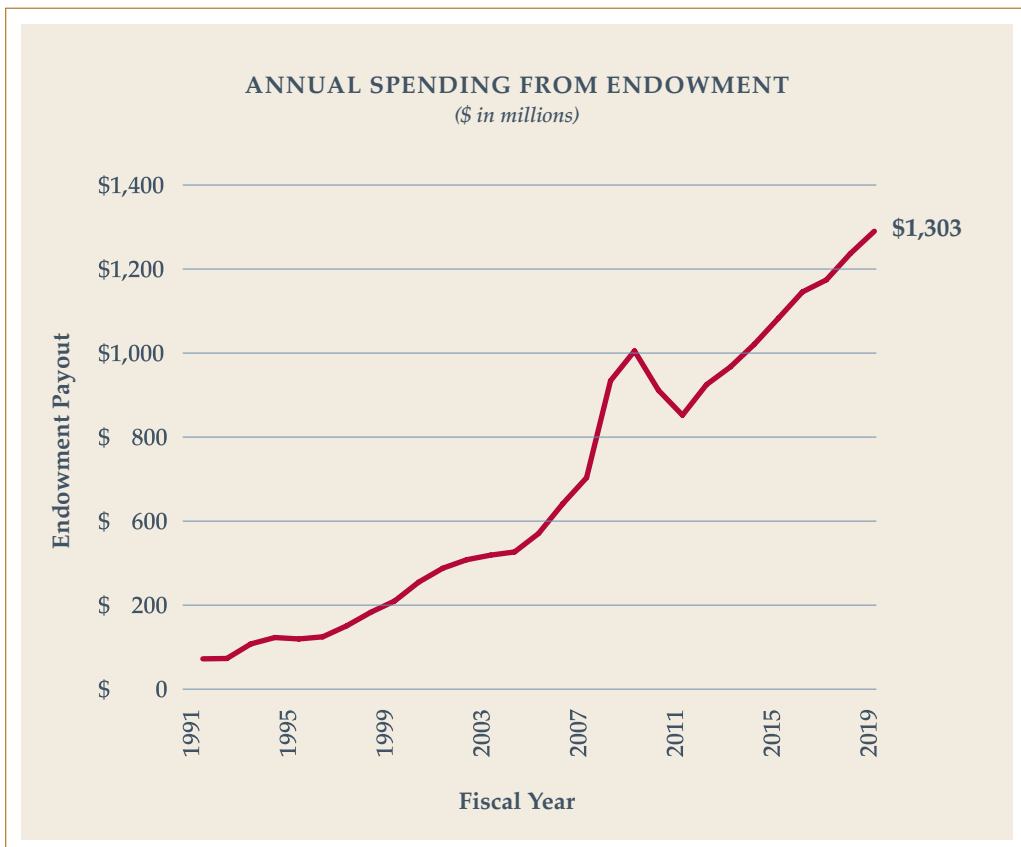
MERGED POOL

As of June 30, 2019, the Merged Pool was valued at \$29.6 billion. The majority of the Merged Pool is endowment, with the balance comprised of other capital the University chooses to invest as long-term funds. 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.





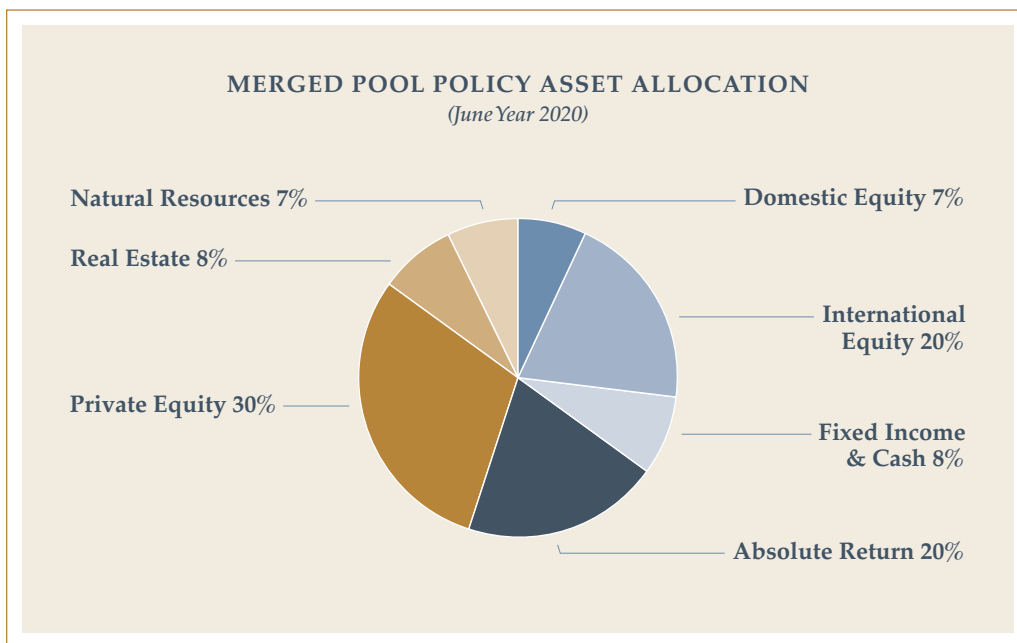
In Fiscal Year 2019, the Endowment disbursed \$1.3 billion in financial aid, support for academic programs, and other current operations. This amount represented 22% of the University's Fiscal Year 2019 operating expenses. Annual spending from the Endowment has increased more than thirteen-fold since 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 estate, natural resources, and private equity. While the portfolio is primarily exposed to equity positions, 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. A small portion of the Merged Pool is held in high-quality fixed income and cash for liquidity purposes. SMC's Policy Asset Allocation codifies its strategy with exposure targets to each major asset class, shown below.



Based on mean-variance modeling, the current asset allocation is expected to generate a 7.7% real arithmetic annual return (after the impact of higher education inflation and all costs and fees) with annualized volatility of 14.2%, which translate to an expected compound real return of 6.7%. 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.

In order 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 remaining faithful to important overall risk-return parameters.



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.

Beginning in mid-2015, SMC initiated an 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. We provide a further update on this effort later in this report.

For the 12 months ending June 30, 2019, public equity markets continued their decade-long recovery from the 2007-08 financial crisis, rising strongly for another year. Results in high-quality fixed income markets were more muted. The Merged Pool's 6.5% net performance for the year exceeded a traditional "70/30" portfolio of global equities and high-quality domestic bonds by nearly 0.7%, adding material resources to the University.

Not surprisingly, after a very long bull market, pockets of overvaluation exist in financial markets. We continue to manage the portfolio with discipline and an awareness that, while valuation is a poor predictor of short-term capital market performance, it is usually a strong predictor of performance over the medium and long term.

Progress Update



Over the last four years, we have worked to concentrate the Merged Pool investment portfolio to improve its risk-return characteristics. In mid-2015, we recognized that the portfolio had become overly diversified, with approximately 300 external investment partners, over half of which were considered “active” and therefore core to the investment strategy. While diversification at the asset class level reduces risk, too much diversification within each asset class can make it difficult to maintain quality and drive superior results. We believed that building stronger relationships with fewer partners would enhance investment returns while not increasing risk.

We have made good progress in this work. Through June 30, 2019, we have reduced the number of active partners to 75, of which 37 are new to Stanford in the last four years. Average exposure to active partners has risen, which allows us to spend more time with each partner and deploy capital with knowledge and confidence. Against a backdrop of volatile markets, a deep understanding of our partners’ skills and evolving opportunity sets helps us invest with conviction and contrarianism.

Expressed in terms of net asset value, our work to concentrate and upgrade the portfolio has proceeded steadily and had impacted roughly 60% of the Merged Pool as of June 30, 2019. The performance arising from this work has been strong in all asset classes. Active partners have materially outperformed inactive, or liquidating, partners over the last four years. For example, new partners that invest in global public equities have generated an 11.3% net internal rate of return over the last four years, handsomely outperforming similarly timed cash flows invested in the MSCI All-Country World Index. New partners that invest in private equity have generated an astonishing 29.3% net IRR over the last four years, not only far outpacing relevant indices, but also exiting the typical “J-curve” period for illiquid fund investments early and strongly.

We are pleased with these results but know that more work remains to be done. The long tail of liquidating investments may be a drag on performance for some time. Until we receive capital back from these discontinuing investments, we cannot redeploy it in more desirable situations. We also recognize that efforts to focus and upgrade the portfolio never truly end. We will always look for new opportunities to deploy Stanford’s capital with talented partners whose interests are aligned with ours.



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 7.0% of the Merged Pool, a modest exposure that reflects several factors, including the historically high valuations of the broad U.S. market.

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 20.0% of the Merged Pool at its policy target, reflecting attractive opportunities in certain foreign markets.

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 trailing monthly "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 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 20.0% 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 8.0% of the Merged Pool.



Angel of Grief

REAL ESTATE The Merged Pool's Real Estate asset class is an important diversifying asset class that can help protect the University in inflationary environments.

The asset class is primarily focused on office, retail, residential, industrial, and leisure assets 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 when valuations are attractive. We endeavor to maintain a quality bias and to ensure an adequate degree of cash flow from our real estate holdings.

The asset class is being transitioned from numerous legacy holdings to a focused group of disciplined partners that own higher quality assets with moderate financial leverage.

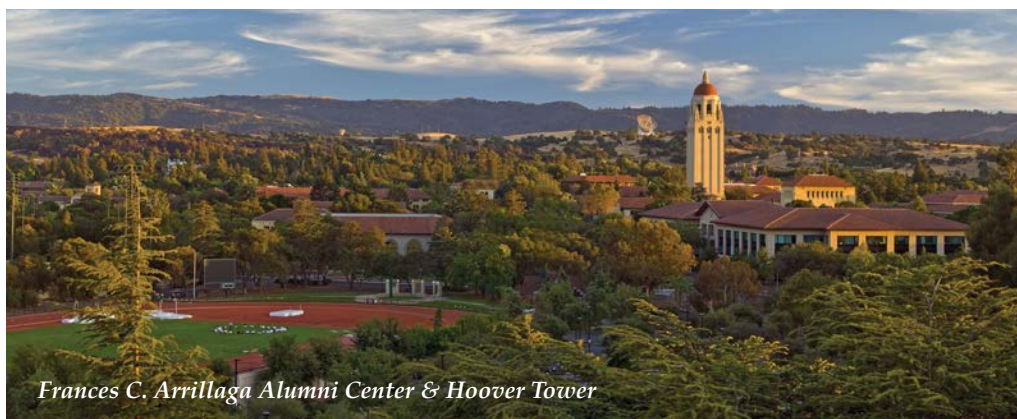
Real Estate is targeted to be 8.0% of the Merged Pool. The University also has significant real estate holdings outside of the Merged Pool.

NATURAL RESOURCES 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.

Natural Resources is targeted to be 7.0% of the Merged Pool.



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. Implemented through carefully selected external partners, we strive to drive value through careful asset selection, price discipline, and strategic and operational initiatives. We strive 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.

We are in the early stages of upgrading and concentrating the Private Equity asset class to drive higher levels of return above its benchmark. This work will take several more years due to the illiquidity of the asset class.

Private Equity is targeted to be 30.0% of the Merged Pool, reflecting its attractive risk-return profile and the University's time horizon.

Valuation



When reading news stories in the financial press, you would be forgiven for thinking that valuation, or the price you pay to participate in the economic future of an asset, is not terribly important. Headlines usually cite GDP growth, central bank policy, employment statistics, and short-term swings in the prices of stocks and commodities. Relatively little is said about the underlying valuation of financial assets, yet valuation is usually the most important variable for a disciplined, long-term investor to consider.

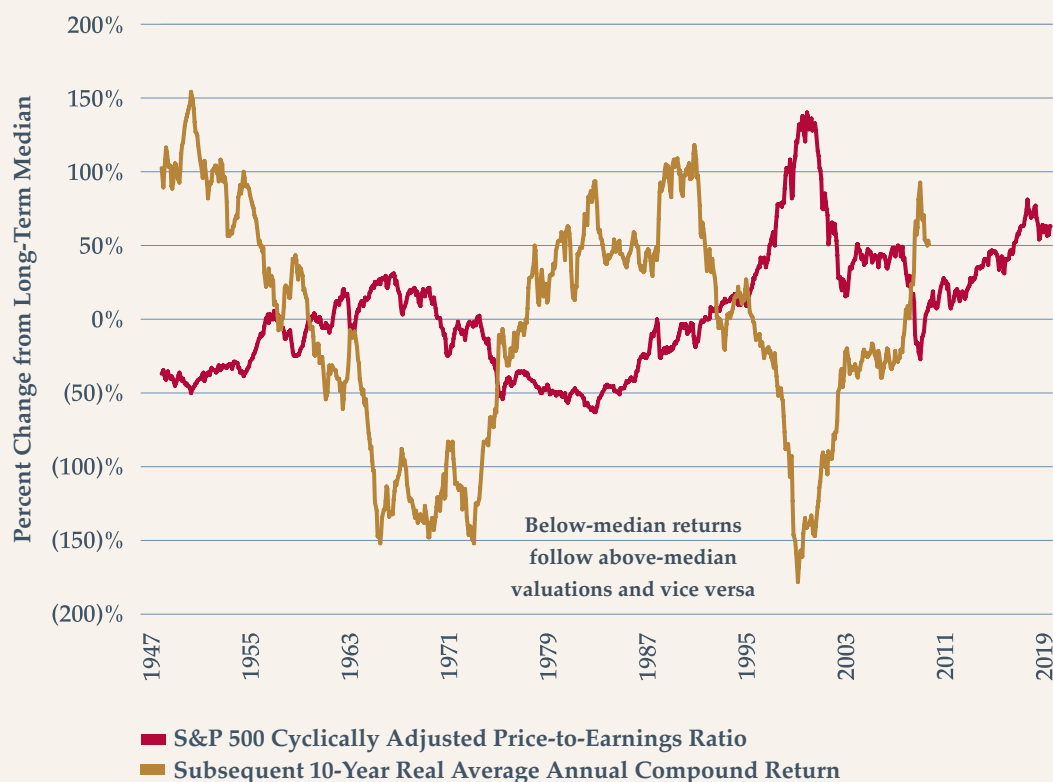
No single valuation measure captures all relevant information. In fact, it is often prudent to weigh several metrics, and to think carefully about what they measure. For example, book value may be a good descriptor for an asset-heavy business, like a bank, but can be a poor one for a business with significant intangible assets, like a technology company. Similarly, a high return-on-equity can signal strength and sustainability for a company with low levels of leverage, but may not mean nearly as much for a company laden with debt. Skillful investors consider several valuation metrics when analyzing an asset from the bottom up and apply different weights to each depending upon the nature of the business and their confidence in the accuracy of the measurement.

Accuracy is always desirable but often overlooked. Simple differences in calculation methodology can lead to surprising disparities in the reported valuation for the same metric. For example, many information providers routinely omit companies with negative earnings when calculating the price-to-earnings ratio (“P/E”) for popular stock indices. Such an omission leads to distorted valuation metrics. To illustrate, as of November 2019, the factsheet for the Russell 2000 Index of small-capitalization U.S. stocks (“Russell 2000”) reported a price-to-earnings ratio of approximately 21x for the index. But this calculation excluded companies with negative earnings, which represented more than a third of the index as of that date. Performing a calculation that includes these loss-making companies more than doubles the aggregate price-to-earnings ratio to 43x — a far different proposition for investors in the index.

While valuation plays little role in short-term investment outcomes, it is a powerful determinant of outcomes over long periods. The reason is intuitive: when you pay a high price for an asset, you usually expect subsequent value increases to be less than if you had paid a low price. This is as true for financial assets like stocks and bonds as it is for houses.

Said differently, valuations of financial assets tend to be “mean reverting.” That is, they return to long-run average levels from periods of over or undervaluation. This tendency can be seen clearly in the U.S. stock market over the last century. Exhibit 1, on the next page, plots the cyclically adjusted price-to-earnings ratio (often called the “Shiller P/E” after Nobel Laureate Robert Shiller, who formulated and popularized it) of the S&P 500 Index versus the subsequent 10-year return of the stock market net of inflation. The results reveal a clear inverse relationship: when valuations are higher than average, investment returns in the subsequent decade are lower than average, and vice versa.

EXHIBIT 1
SHILLER P/E OF THE S&P 500



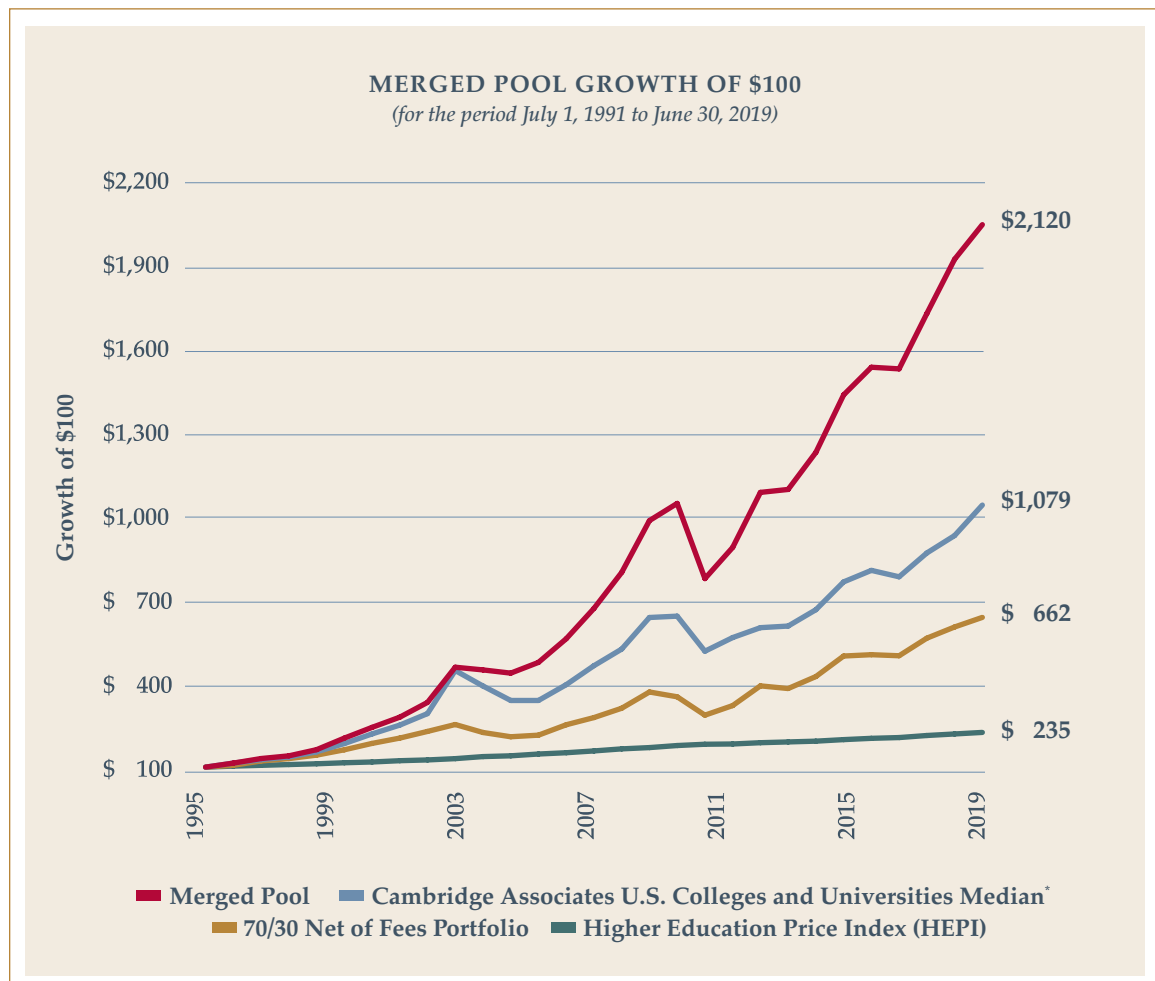
Valuations can deviate meaningfully from long-term averages and remain elevated or depressed for extended periods of time. Reversion occurs in different speeds at different times for a variety of complex and probably unknowable reasons, and investors that expect it to occur like clockwork can be greatly disappointed. Despite the unpredictability of its timing, however, mean reversion is a powerful feature of long-term investment, and careful investors know a healthy dose of contrarianism helps maintain the desired balance between risk and return in their portfolios over time. As the great economist John Maynard Keynes observed, “The central principle of investment is to go contrary to the general opinion, on the grounds that if everyone agrees about its merit, the investment is inevitably too dear and therefore unattractive.”

Investment Performance



For the 12 months ending June 30, 2019, the Merged Pool generated a 6.5% return net of all internal and external fees and costs. This result exceeded the 5.3% median return for U.S. colleges and universities* and outperformed the 5.8% 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 28-year period, the Merged Pool has earned an annualized net return of 11.5%, exceeding the median of a broad group of colleges and universities by 2.6% annually, and surpassing the passive “70/30” portfolio by 4.5% annually.



*As reported by Cambridge Associates.

SMC's long-term performance has added tens of billions of dollars to the value of the Endowment versus the results of peers and traditional passive portfolios, as shown in the dollar-value-added analysis below.

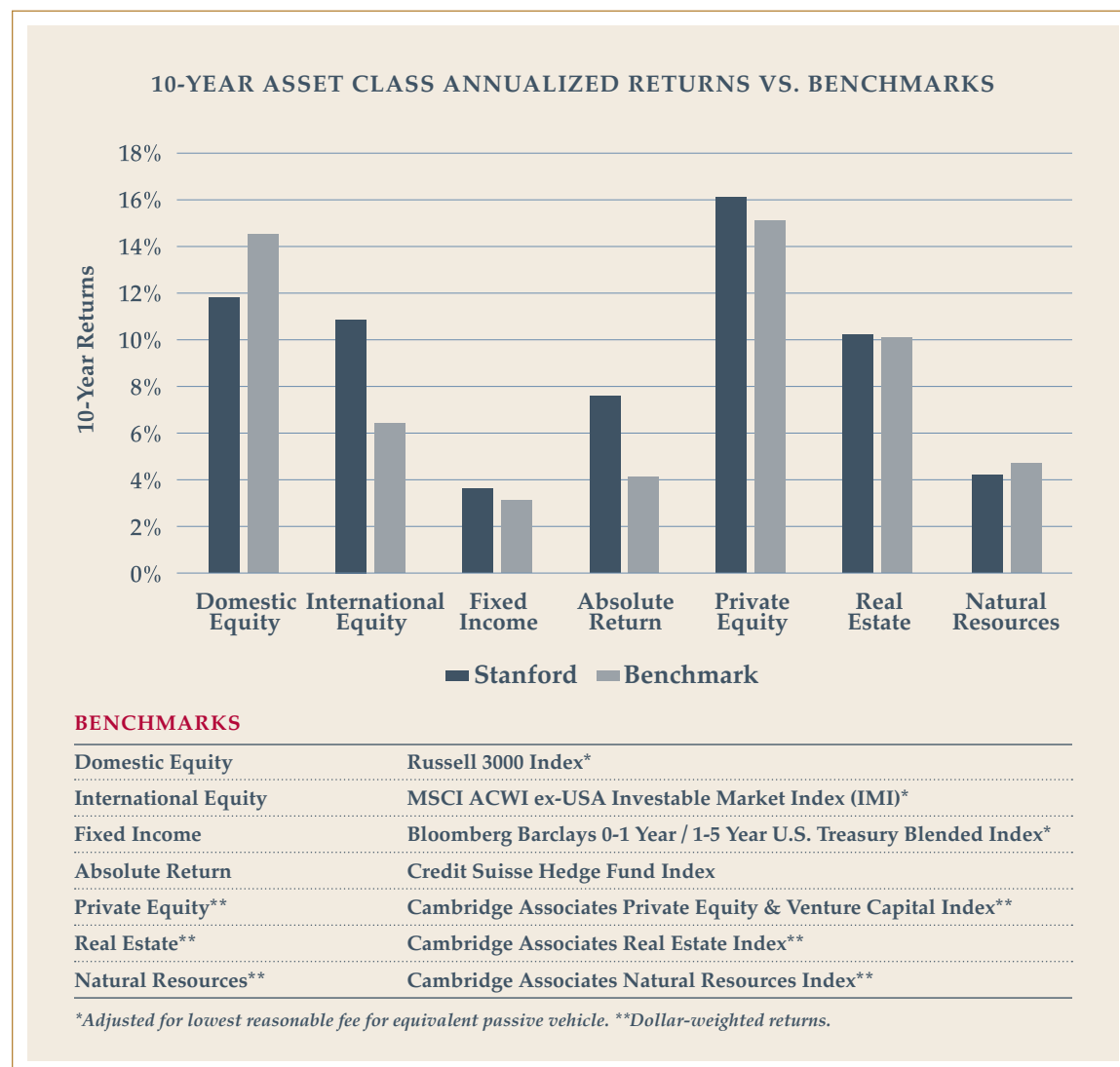
DOLLAR-VALUE-ADDED SINCE INCEPTION* (\$ in billions)

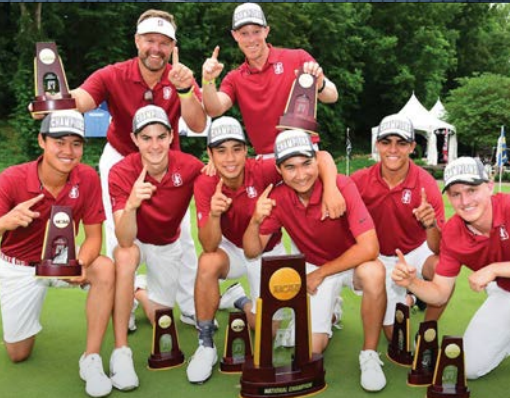
Stanford's Merged Pool

vs. Cambridge Associates U.S. Colleges and Universities Median	\$19.4
vs. 70% Equities / 30% Bonds	\$27.2

*Inception date of July 1991. Note: Analysis does not account for gifts and payout.

Several asset classes have generated outperformance relative to benchmarks over the last 10 years, with notable outperformance in International Equity and Absolute Return, two of our largest asset classes. More muted relative results in the smaller asset classes, like Domestic Equity and Natural Resources, suggest room for improvement, which our efforts to concentrate and upgrade the Merged Pool portfolio are designed to address. These efforts are detailed earlier in this report.





Spotlight On Athletics



Each year, this report highlights an area of the University that endowed funds support. One such area is athletics, where Stanford students distinguish themselves outside of the classroom, achieving national and even global titles in a wide range of sports. The Endowment provides financial support for Stanford Athletics in a variety of ways, funding endowed coaching positions, program endowments, and athletic scholarships. The Endowment also provides support for non-varsity athletics-related costs, including campus gymnasiums, intramural teams, and recreation and wellness courses.

Stanford has won at least one NCAA team championship for 44 consecutive years, the longest streak in NCAA history. In total, the University holds a record 126 NCAA championships.

Recent history is no exception to Stanford's extraordinary performance. In the 2017-2018 academic year, Stanford became the first institution to win the Learfield IMG College Directors' Cup and both the men's and women's Capital One Cup in the same year. During 2018-2019, Stanford tied its own record for most NCAA titles earned in a single year, winning an astonishing six NCAA championships.

On the heels of those victories, the Cardinal shows no signs of slowing down. On December 8, 2019, Stanford won two NCAA championships—men's water polo and women's soccer—on the same day. Two weeks later, Stanford won the 2019 NCAA championship in women's volleyball, a back-to-back title for the team. With three national championships already under its belt, Stanford is well positioned to contend for another Directors' Cup win in 2020.

Stanford athletes also triumph in the global arena. Stanford-affiliated athletes have won 270 Olympic medals (139 gold, 73 silver, and 58 bronze) overall, and the University has produced at least one medalist in every Olympics in which the United States has competed since 1912. In 2016, 39 current, previous, or incoming Stanford athletes competed at the Summer Olympics in Rio de Janeiro. Stanford-affiliated athletes earned 27 medals (14 gold, seven silver, and six bronze) in Rio. If the University were its own country, Stanford would have finished 10th in overall medal count in the Games.

This summer, Tokyo will host the 32nd Summer Olympic Games. Olympic hopefuls include current Stanford student Katie Ledecky, who won four gold medals and one silver medal in swimming during the Rio Olympics. This year's Games will take place from July 24 to August 9, and Stanford fans around the world will be tuned in and ready to watch!

2019 NCAA Championship teams (clockwise from top left): Women's Tennis, Men's Water Polo, Women's Swimming & Diving, Men's Gymnastics, Women's Water Polo, Women's Soccer, Women's Volleyball, and Men's Golf.

Investment Team



Robert Wallace
Chief Executive Officer

Jay Kang
Senior Managing Director

Michael Lee
Managing Director

Yidi Lu[†]
Managing Director

Charles Moore *J.D. 1995**
Managing Director

Mark Shoberg *M.B.A. 2003*
Managing Director

Blair Critchlow *B.A. 2008*
Director

Austin Lawrence
Director

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

Mary Mei
Director

Steven Wright *B.A. 2008*
Director

David Captain
Associate Director

Rick Devlin
Associate Director

Andrew Elott *B.A. 2017*
Senior Analyst

Julian Skotheim
Senior Analyst

Emma Hardimon *B.A. 2018*
Analyst

Charles Killebrew *B.S. 2018*
Analyst

Jennifer Peterson *B.A. 2018*
Analyst

Federica Roth *B.S. 2018*
Analyst

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

Eunice Kim
Legal Counsel

Mark Tannahill
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





STANFORD MANAGEMENT COMPANY



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