

A photograph of the Stanford University quad. In the foreground, five diverse students are sitting on the ground, engaged in conversation. Behind them is the iconic redwood building with its large, ornate arches and a circular window. The sky is clear and blue.

Stanford's Endowment Frequently Asked Questions

2013-14

Stanford
University

“...it shall constitute the foundation and endowment for the University herein provided, and upon the trust that the principal thereof shall forever remain intact, and that the rents, issues, and profits thereof shall be devoted to the foundation and maintenance of the University hereby founded and endowed, and to the uses and purposes herein mentioned.”

Leland and Jane Lathrop Stanford
Stanford University Founding Grant, 1885

Stanford's Endowment

Frequently Asked Questions

What is the endowment?

ENDOWMENT REFERS TO ASSETS THAT ARE INVESTED FOR THE LONG TERM AND INTENDED to provide a permanent source of financial support for the university. This is in contrast to expendable funds, which are typically used for immediate needs. Stanford's original endowment was created in 1885 by Leland and Jane Stanford.

Over the years, thousands of donors have established endowed funds for scholarships, fellowships, professorships, and many other purposes. Today, Stanford's endowment comprises more than 7,000 individual funds, each one named and used in accordance with the donor's wishes.

When a donor creates an endowed fund, the gift “buys shares” in Stanford's Merged Pool (MP), which operates similarly to a mutual fund. The value of the shares changes depending on investment returns. Each year the Board of Trustees sets a payout rate, much like a dividend, for MP shares. Payout is the amount available to be spent annually for each fund's designated purposes. (See “How does Stanford determine its endowment payout?” for more information.)



How big is Stanford's endowment?

AS OF AUGUST 31, 2014 (THE END OF STANFORD'S FISCAL YEAR), THE VALUE OF THE endowment was \$21.4 billion, an increase of 14.8 percent over the previous year. (The increase reflects the impact of investment returns plus new endowment gifts and transfers, minus the payout to support university operations.)



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Stanford confers approximately 1,700 undergraduate and 3,300 graduate degrees each year.

How does Stanford determine its endowment payout?

STANFORD'S BOARD OF TRUSTEES SETS THE PAYOUT RATE ANNUALLY, TYPICALLY targeting a long-term average yearly distribution of about 5.5 percent of endowed funds. The board sets this target carefully to balance two objectives: (1) to provide a relatively steady annual payout, and (2) to enable endowed funds to support their purposes in perpetuity.

Rather than paying out a fixed percentage of the endowment each year, the university applies a smoothing formula as a cushion against market volatility. In periods of exceptional investment performance, the smoothing formula adjusts the payout rate downward; the payout amount may still increase, but less than it would if the rate were fixed. During investment downturns, the smoothing formula adjusts the payout rate upward. Again, the amount of the payout follows the direction of the markets, but the magnitude of market shifts is dampened.

The resulting payout rate is approved by the Board of Trustees each February, enabling the university to plan ahead for the following fiscal year (September through August).

The payout does not depend on particular components of investment return, such as income or appreciation, because the university invests its endowment for total overall return. When a fund's income and appreciation are not sufficient, the payout may also be satisfied from principal or "historic gift value," with a donor's permission.

What percentage of Stanford's expenses is funded through the endowment?

IN FISCAL YEAR 2014, ENDOWMENT PAYOUT COVERED APPROXIMATELY 23 PERCENT OF Stanford's operating expenses. Solid investment management, a prudent payout strategy, and robust support from donors have meant that Stanford has been able to grow this number from 9 percent in 1992. Still, Stanford must fund more than two-thirds of its operating expenses—which were \$4.3 billion in fiscal year 2014—from government grants and contracts; student tuition and fees; nongovernmental grants; health care income; and gifts from alumni, parents, and friends. Over time, Stanford seeks to increase the percentage of operating expenses covered by endowment payout, thus providing a permanent source of funding for academic programs and financial aid.

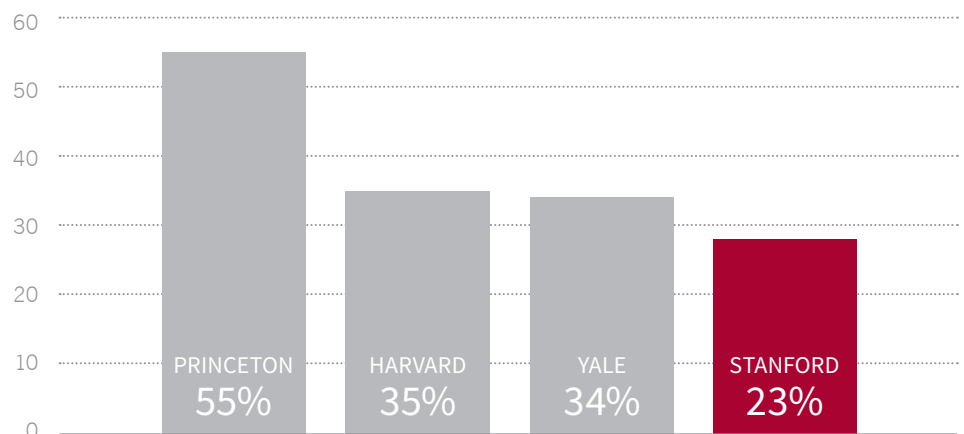


Stanford's community of scholars currently includes five Pulitzer Prize winners, 21 Nobel laureates, 28 MacArthur fellows, and hundreds of members of the National Academies. **LEFT:** Maryam Mirzakhani, professor of mathematics, is the first woman to win the Fields Medal. **MIDDLE:** William E. Moerner, the Harry S. Mosher Professor of Chemistry, shared the Nobel Prize in Chemistry. **RIGHT:** Jennifer Eberhardt, associate professor of psychology, is a MacArthur Fellowship award winner.

How does Stanford's endowment measure up?

ENDOWMENT VALUES FOR PRINCETON, HARVARD, AND YALE ON JUNE 30, 2014 (THE END of their fiscal years), were \$21.0 billion, \$36.4 billion, and \$23.9 billion, respectively. Those institutions' endowments are significantly larger than Stanford's relative to their expenses.

Percentage of Expenses Covered by Endowment



Source: Fiscal Year 2014 Financial Statements

Can Stanford dip deeper into the university's endowment to cover more expenses?

PEOPLE OFTEN MISTAKENLY THINK OF AN ENDOWMENT AS A KIND OF INTEREST-EARNING checking account that can be drawn on to cover expenses as needed. It's actually more like a trust fund—one that must last not only 50 or 100 years but in perpetuity, without its real value eroding over time. An endowment is therefore invested for the long term, and its purchasing power must be maintained indefinitely. In periods of strong returns, we are able to reinvest a good portion of investment income and appreciation so that we can draw upon it in leaner years. The economic volatility of the last several years underscores the value of the university's long-term approach to endowment spending.

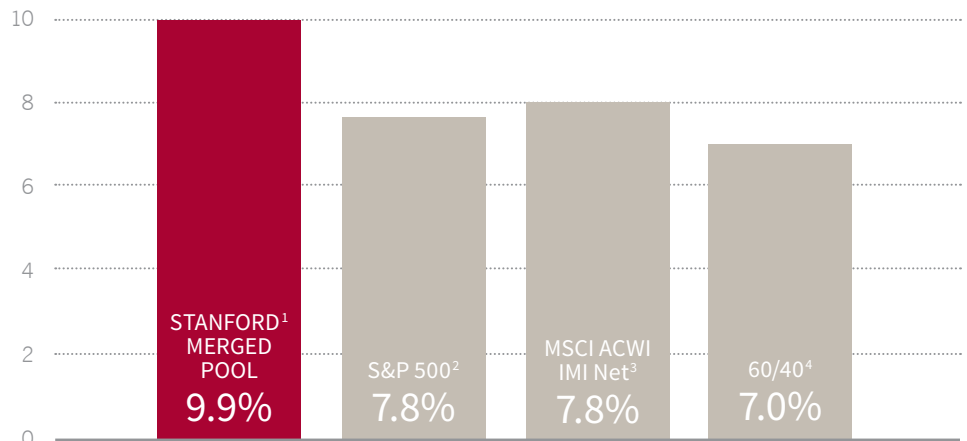
In addition, many donors designate the purposes for which their endowed funds may be spent. For example, funds given for one school or department cannot be used in another, and funds given for research cannot be applied to financial aid. More than half of Stanford's endowment is subject to such permanent restrictions. In effect, this limits the university's ability to spend more of the endowment, even when needed.



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Stanford is among the few private American universities that offer need-blind undergraduate admission.

Stanford vs. Market Benchmarks— 10-Year Annualized Returns as of 6/30/14



¹ The Merged Pool represents the primary investment vehicle of Stanford's endowment.

² The S&P 500 represents 500 of the largest companies in the U.S. economy, a broad snapshot of the U.S. equity market.

³ The MSCI All Country World Investable Market Index (MSCI ACWI IMI Net) tracks more than 9,000 securities in over 45 countries.

⁴ Represents a passively managed portfolio of 60% MSCI ACWI IMI Net and 40% Barclays Capital Aggregate Bond Index, a traditional institutional benchmark.

The Stanford Management Company's expertise has produced impressive long-term results. Stanford's five- and 10-year investment returns are at or above the median for the top 20 university endowments.

Can Stanford's land be sold to pay for expenses?

LELAND AND JANE STANFORD ANTICIPATED THAT SELLING LAND TO MEET IMMEDIATE needs might be a temptation, so in the Founding Grant they required that none of the land of their Palo Alto farm ever be sold. They did so because they believed the land would provide for the long-term viability of the university. Their farm comprises more than three-quarters of Stanford's current landholdings.

Over the years, Stanford's Board of Trustees has chosen to apply the same principles of stewardship to the rest of the land that makes up Stanford's campus. The land is held in trust to carry out the aims of the Founding Grant: to support the university, either directly for academic purposes or indirectly through the generation of income for those purposes.

Today, Stanford University owns 8,180 acres of contiguous land spread over six political jurisdictions—four municipalities (Palo Alto, Menlo Park, Woodside, and Portola Valley) and unincorporated land in two counties (Santa Clara and San Mateo).

The central part of Stanford's land is home to academic buildings and support facilities, including classrooms and laboratories, athletic and recreation facilities, student and faculty housing, and the SLAC National Accelerator Laboratory. Two hospitals, a shopping center, and a commercial research park are also located on Stanford land. But after more than a century of dynamic operation and growth, nearly two-thirds of Stanford's land remains open space or is only lightly developed.

Keeping the land intact has allowed the university to retain one of the country's most magnificent campuses, which is a strong magnet for potential students, faculty, and researchers. Even the undeveloped land serves important academic purposes. For instance, the Jasper Ridge Biological Preserve covers 1,189 acres of the campus and has been the site of many fundamental studies in ecology, hydrology, geology, and archaeology.



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The university's Jasper Ridge Biological Preserve supports an average of 60 research projects each year.

Do small gifts make a difference?

YES. LARGE GIFTS AND GRANTS OFTEN TARGET SPECIFIC NEW VENTURES OR ARE otherwise restricted. That makes even small gifts, which generally have few restrictions, enormously valuable to Stanford. Annual, expendable gifts (those that may be used in their entirety to meet immediate needs) are an essential complement to gifts of endowment.

Most gifts made to the university are under \$1,000. Together, these gifts added up to millions of dollars that could be used for need-based financial aid, academic programs, solutions-oriented research into global problems, and programs such as the Haas Center for Public Service.



STEVE GLADFEILER

Stanford enrolls about 7,000 undergraduate students.

How much of Stanford's expenses are covered by tuition? What role does financial aid play?

TUITION ACCOUNTS FOR ABOUT 15 PERCENT OF UNIVERSITY REVENUES IN A GIVEN YEAR.

What's more, tuition covers only about two-thirds of the real costs associated with a Stanford undergraduate education. Thus, even those paying "full price" are not actually paying the full cost of four years at Stanford. From the university's first days, a Stanford education has been subsidized by the generosity of the founders, alumni, parents, friends, and other donors. Today, nearly half of all Stanford undergraduates receive need-based aid directly from the university.



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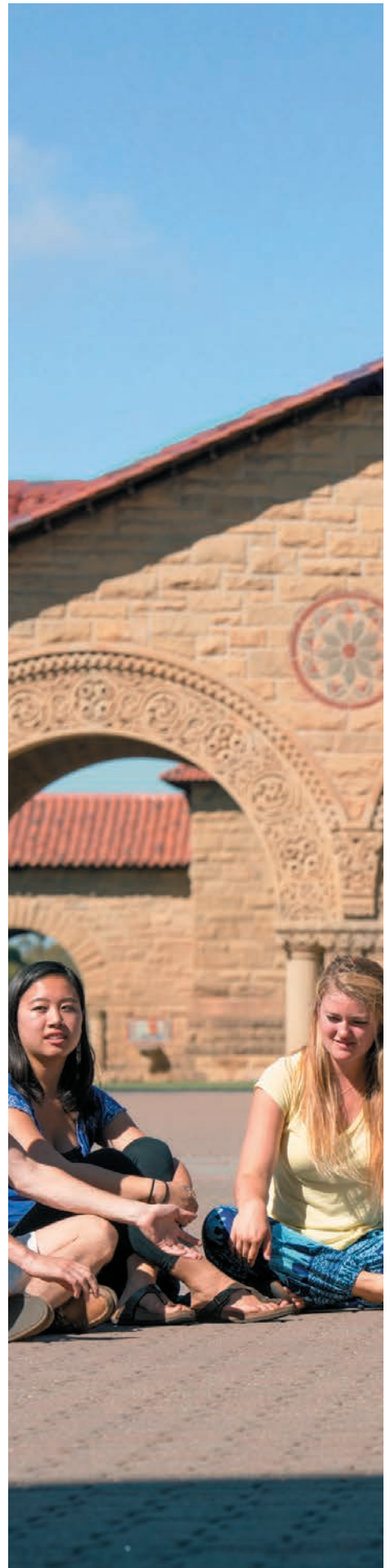
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Stanford committed to substantial enhancements of its financial aid program just as the economic recession led to increased need among students and their families. As a result, the university's financial aid budget has more than doubled since 2003–04. The policy changes have greatly reduced the percentage of seniors graduating with student loans and have allowed us to remain competitive with peer institutions. To ensure that Stanford remains accessible to talented students from all backgrounds, the university is looking to increase support for financial aid from The Stanford Fund and to continue growing the endowment for scholarships.

For more information on Stanford's finances, please see the university's annual report: annualreport.stanford.edu.

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