



Stanford University

STANFORD MANAGEMENT COMPANY

July 31, 2020

The Honorable Emanuel Cleaver, II
Member of Congress
2335 Rayburn HOB
Washington, DC 20515

The Honorable Joseph P. Kennedy, III
Member of Congress
304 Cannon House Office Building
Washington, DC 20515

Dear Representatives Cleaver and Kennedy,

Thank you for your letter to Stanford University President Marc Tessier-Lavigne dated July 10, 2020, regarding diversity among asset managers of university endowments. As the Chief Executive Officer of Stanford Management Company, I have been asked by President Tessier-Lavigne to respond to your letter on his behalf. While we consider most details of the University's investment portfolio to be confidential for competitive reasons, we are pleased to be able to address your questions about this important topic.

Diversity has been a core value at Stanford since the University's founding in 1891. That year, the University opened its doors to men and women from diverse religious, national, and racial backgrounds in its quest to train useful citizens. Today, diversity and inclusion are essential to Stanford's strength and we depend upon the participation and inclusion of people of all backgrounds, races, genders, abilities, identities, ideologies, and ways of thinking. Advancing the University's commitment to the values of diversity and inclusion is a focus of President Tessier-Lavigne's long-range vision, a key component of which is the Inclusion, Diversity, Equity, and Access in a Learning Environment (IDEAL) initiative. IDEAL is intended to work across the entire campus community in the areas of recruitment, research, education, and engagement.

We consider a wide range of factors when investing Stanford's endowment. Importantly, as a business unit of the University, we are bound by Stanford's equal opportunity policy, which prohibits discrimination and harassment and provides equal opportunity for all employees and applicants for employment. The University's equal opportunity policy is accessible to the public and can be found on [this website](#). We consider these policies binding both in our staffing of the investment office and in our selection of external investment partners.

For the last several years, we have engaged in a significant restructuring of Stanford's investment portfolio to improve its return profile and reduce its risk. This work has led to the replacement of 80% of our external investment partners. Some older partners are still in the process of liquidating but are not receiving any new capital. Accordingly, we report here on our active partners, which constitute the substantial majority of current endowment value and best represent Stanford's go-forward approach with respect to diversity and other characteristics.

Approximately 25% of the value of Stanford's active investment portfolio is placed with external firms led or co-led by women or members of racial and ethnic minorities. By number of partners, 19% of the portfolio is placed with diverse-led firms. We cite these percentages to the best of our ability and include only partner firms where diverse professionals lead or co-lead their firms and have correspondingly substantial economic interests. In our view, this approach is more accurate than a test of simple legal ownership, which can markedly differ from true economic participation and responsibility in the firm. We have excluded international partners and purely passive strategies to best align our answers with our understanding of the spirit of your questions.

The diversity in our portfolio is not evenly distributed. Most importantly, we would like to have more partner firms led by Black, Latinx, and Native American professionals. We are surveying all such firms in the U.S. whose investment strategies fit with ours and intend to reach out proactively to the resulting firms to request literature or a meeting, assuming we have not already met. Because we partner with fewer than one percent of the firms with which we meet, we acknowledge that this

outreach effort will require patience to bear fruit, but it is nevertheless a necessary and worthwhile undertaking.

As your letter notes, diverse-led investment firms unfortunately comprise only a small single-digit percentage of the asset management industry. The fact that they represent a higher percentage of Stanford's endowment is fortunate, but it does not itself remedy the issues you note. Over the long term, the lack of diverse-led investment firms must be addressed by attracting more diverse professionals to the investment field. Until more firms are managed by diverse leaders, institutional investors will generally struggle to have balanced representation in their portfolios.

The goal of having more diverse professionals choose a career in investment management rests on education and access. Here, Stanford University already plays an important role. The University educates a highly diverse group of undergraduate students. Stanford's graduate program in business is also very diverse. Stanford's MBA and other educational programs routinely educate future leaders of investment firms.

Importantly for the pipeline of future diverse investment professionals, Stanford students have access to many courses in economics and finance, including an undergraduate seminar taught by the staff of Stanford Management Company. Stanford Management Company also runs an internship program designed to introduce students to investment management. Over the last five years, more than 65% of our interns have been women or minorities. We expect that a number of these individuals will choose a career in finance, as indeed some already have, including in our office.

The diversity of our interns matches the general diversity of our office. The majority of our junior investment professionals are women or members of ethnic and racial minorities. At the senior level, most of our managing directors are women or members of ethnic and racial minorities. Half of our staff is female, which is somewhat unusual for the investment management industry, and we have Black, Bi-racial, Asian, and Hispanic professionals on the team. Despite this overall level of diversity, however, we hope and intend to make more progress with Black, Latinx, and Native American

professionals, all of whom are underrepresented to various degrees on our staff and in our applicant pools. We are planning seminars, talks, and other measures to reach more young people from these groups that may find our work interesting.

Education and access are at the heart of this effort and we note that the Endowment provides critical support to diversity in undergraduate and graduate education. Stanford's financial aid scholarships for low-income students are among the most generous in the nation. For example, at the undergraduate level, students from families with typical assets and incomes less than \$150,000 a year pay no tuition to attend Stanford. Students from families with typical assets and incomes below \$65,000 pay neither tuition nor room and board. As a result, endowed financial aid has helped us significantly grow our population of students who are the first in their family to attend college; in the undergraduate class that entered Stanford last fall, 18.5% of those enrolled were first-generation students. Financial aid provided by Stanford also ensures that nearly 85% of Stanford undergraduates incur no debt while attending the University.

A central goal of our endowment management efforts is to maintain the value of these endowed funds so that they can provide material support for current and future generations of students that have the aptitude, but may not have the financial means, to attend Stanford. It is not only through the diversity of our external partners and staff that we hope to address the problems you note, but also through our work as fiduciaries for endowed funds that provide financial support for low- and middle-income students of all backgrounds.

We look forward to making more progress toward our shared goals of access and equity across the higher education sector.

Sincerely,

A handwritten signature in blue ink that reads "Robert F. Wallace". The signature is written in a cursive style with a large initial 'R'.

Robert F. Wallace
Chief Executive Officer, Stanford Management Company
Stanford University