<u>Stanford Management Company: Ethical Investment Framework</u>

Stanford University's endowment provides a vital source of financial support to sustain the University's educational and research mission. The University's Board of Trustees bears ultimate responsibility for the stewardship of the endowment. The Trustees have charged Stanford Management Company ("SMC") with the task to design and execute an investment strategy that maximizes risk-adjusted investment returns over long periods of time. Achieving this goal will allow the University to fulfill its legal obligations to endowment donors and support the educational and research needs of present and future generations of students and scholars.

Ethical and social considerations play a central role in SMC's work, beginning with our asset allocation decisions. SMC's asset allocation reflects the risk and return characteristics of major categories of investment. In determining these characteristics, SMC strives to understand the medium and long-term prospects for each asset class and their relationship to each other. Ethical and social factors can alter these prospects, particularly if they involve a public good, such as clean air or water. For example, climate change alters the risk and return characteristics of conventional energy holdings. As a prudent fiduciary, SMC incorporates the risks associated with carbon when considering conventional energy holdings. In economic terms, we try to account for the externalities associated with burning hydrocarbons, which helps us invest sensibly in a sector undergoing significant change.

While certain ethical and social risks rise to the broad level of asset allocation, many risks are best analyzed at the level of specific businesses. Businesses that consistently and willfully mistreat stakeholders usually make poor long-term investments, as stakeholder dissatisfaction, and perhaps even legal sanction, erode the value of the business. We believe the University has more productive places to invest its capital. Indeed, the businesses in our portfolio provide highly valuable goods and services to the world. While our primary mission is to support Stanford, we believe that well-run companies responding to genuine customer needs in a responsible fashion have a beneficial impact on society.

In our investment approach, investment decisions about specific securities are primarily made by carefully selected external partners. We choose these partners for their skill, judgment, and alignment of interests with the University. We also choose them for their ability to underwrite risk comprehensively. Our partners understand that the businesses in their portfolios are far more likely to endure, and to generate sustainable returns on investor capital, when they behave with due regard for the welfare of their stakeholders and the communities in which they operate. Our partners are engaged shareholders in the businesses in which they invest. They strive to exercise shareholder governance in a way that makes the businesses they own more productive and valuable -- work that clearly includes ethical considerations.

Through close dialogue with our external investment partners, SMC reinforces attention to ethical and social factors that impact security-level investments. We also spend significant time and effort to understand the character and sensibilities of potential partners when first evaluating a new relationship. We consider a strong moral framework to be an important aspect of an alignment of interests with the University. Nevertheless, while we ask our partners to demonstrate strong moral sensibility, it would not be appropriate to insist they advance a particular social or political agenda for its own sake. Such insistence would contravene a guiding tenet of Stanford as an educational institution to avoid taking political and ideological stances. It would also likely lead to material adverse selection in our external partners.

SMC's approach to social and ethical matters is strongly supported by state and federal laws governing trust fiduciaries, under which SMC is bound. Popularly known as the "prudent investor" rules, this legislation requires trustees of financial assets to consider any factors as may affect the long-term economic interests of their beneficiaries. Therefore, in managing Stanford's endowment, which is capital held in trust for the benefit of current and future generations of Stanford students and scholars, SMC is obliged to place proper weight on ethical issues that can have a bearing on economic results, but not to use the endowment to pursue other agendas.

In rare instances, the University's Board of Trustees may elect to divest specific companies or categories of investment that are deemed abhorrent and ethically unjustifiable. Such divestment decisions are only reached after careful deliberation by the Trustees, who apply consistent principles and a thorough process. When so instructed by the Trustees, SMC implements divestment decisions with discipline. Please see Stanford's Statement on Investment Responsibility for further information on the University's divestment policy.