Hushed Voices

Sacred and secular, the University’s observance of September 11 proved both a moving memorial to the thousands who lost their lives to terrorists, and a reassuring reminder of the ordinary routines and responsibilities of daily life.

The service itself was extraordinary. Several thousand people gathered in Tercentenary Theatre at noon, in breezy but temperate weather, under a shifting sky of gray and blue. Those nearest the terrace in front of Memorial Church sat on the lawn, but most in the audience stood during the 40-minute program, or sat on the Widener Library steps. Unlike a Commencement crowd, or the celebratory audience for Nelson Mandela’s appearance four Septembers earlier, this one was utterly quiet, called to order by the tolling of the church bell, the blowing of the shofar, the chanting of the adhan and of the Bodhicaryavatara. (The program for the ceremony noted that the bell, donated by President Abbott Lawrence Lowell to honor Harvard’s World War I dead, is inscribed, “In memory of voices that are hushed.”)

The welcomes and invocations were ecumenical, too, beginning with remarks by Swami Tyagananda, president of Harvard’s United Ministry. He recalled that selfless acts by those who responded to the terrorist attacks “brought out the best in human nature, and that filled us with courage and strength.” Leaders of Hillel, the Islamic Society, and the Zoroastrian Association at Harvard echoed his wish that on this date every year people could observe a day of “remembrance and hope.” Then students read from the texts of
seven sacred traditions, beginning with the Koran and concluding with the Jewish memorial prayer, El-Maley. After the fourth reading, choral fellows of the University choir sang “Canticle: Mosaic in Remembrance and Hope,” composed for the occasion by Carson P. Cooman ’04.

Recalling the shock and grief he helped address exactly one year earlier in the same venue, President Lawrence H. Summers said, “We vowed then that we would remember and we have.” In current perspective, he said, “we cannot evade the truth that what we commemorate here today is more than just the tragedy of human lives lost...It is the result of a calculated plan to murder unsuspecting people...because they were members of this national community enjoying the fruits of freedom.” Confronting “the eternal existence of evil,” he said, “we regard the world with understanding and openness, but we must also face it with moral clarity. We may debate the nature of truth, but there are truths beyond debate. Pursuit of that truth is our particular objective.” Those “privileged to be part of a great university,” he said, must “use our knowledge to build a world of deeper understanding, greater justice, and heightened respect for human life. For centuries, Harvard has been proud to serve the American nation; and now, increasingly, we are called to serve the world as well.” That service he defined as “pursuit of truth—our high and common purpose.”

The bell resumed its somber tolling, the assembly rose for the benediction by Peter J. Gomes, Pusey minister in the Memorial Church, and the observance ended. Those who wished to took daffodil bulbs, donated by a local nursery, to plant in memorial gardens around campus.

Unscripted were the abundant signs of everyday activity during the ceremony. Jets climbed overhead on routine flights from Logan Airport, where only military craft flew a year before. Patrons exited ...
and entered Widener, free to pursue their individual interests. A professor strode toward the Faculty Club. Late-summer insects buzzed in the trees. A bus proceeded down Quincy Street, and motorists honked through Harvard Square. High above the Yard, one of the local red-tailed hawks surveyed the silent crowd on a delirious cirlcing transit, west to east. On September 11, 2001, the very idea of normalcy had seemed shattered.

**Steady State**

Diversification pays. So do effective investment disciplines. Those are the two signal lessons from recent Harvard Management Company (HMC) stewardship of the University’s endowment funds. The return on investments, after all expenses, was -0.5 percent for the fiscal year ended June 30.

As most individual investors know, the “investment climate was once again harsh” during that period, as HMC president Jack R. Meyer, M.B.A. ’69, describes it, with “sharply negative” returns for the major U.S. equity markets, including private equities such as venture capital. “We may not be out of the woods,” Meyer wrote in September, in his annual letter reviewing performance, “but the endowment has weathered the two-year storm in fine shape.” (During those two years, the chief U.S. stock-market indexes declined 32 percent and 63 percent.) But coming out of that storm, the endowment’s ability to propel further growth in University spending on its academic priorities may need to be reexamined.

In absolute terms, the endowment was valued at approximately $17.5 billion at the start of the fiscal year—down from $18.3 billion at the end of fiscal year 2001, and a peak of $19.1 billion the year before. The decline, which Meyer terms disappointing, reflects three factors. First, the rate of return on investments has now been negative for two consecutive years (following the -2.7 percent return in fiscal 2001)—a first in modern Harvard endowment history. Second, and far more important, is the actual distribution of funds from the endowment, a sum that now totals $750 million or so annually and constitutes the largest single source of revenue for Harvard’s programs and operations—about 30 percent of the total. Finally, the endowment varies with the net amount of gifts received. In the most recent fiscal year, Meyer estimates, gifts totaled about $530 million, or half the funds received during the prior year.

On a relative basis, that modestly negative -0.5 percent investment return is cause for celebration. The indexes against which HMC benchmarks performance in its diverse classes of invested assets produced a -4.5 percent return, and the median fund with which the Harvard endowment is compared yielded -5.9 percent. Although that means HMC achieved a narrower margin of superiority over peer funds than in the prior year, the University is still fortunate. Had HMC only matched the benchmark returns for its model “policy portfolio” or run at the median institution’s return, Harvard would be $800 million to $1 billion less well endowed.

HMC’s fiscal year 2002 results reflect “consistency across asset classes,” Meyer says, a result that “pleases us.” As might be expected in a year of sluggish economic growth, low and declining interest rates, and poor stock-market returns, fixed-income investments (about one-quarter of assets) drove the endowment performance overall. Foreign bonds returned 32.4 percent, more than twice the benchmark; domestic bonds returned 14.8 percent, more than 5 percentage points above the benchmark; and the portfolio of inflation-indexed bonds, a relatively new category driven by HMC, returned 9.2 percent.

Equity holdings—40-plus percent of the assets—were laggards, with one exception. Domestic stocks yielded -12.2 percent. Private equities were even weaker, returning -19.7 percent; Meyer notes that even though venture-capital firms remain awash with excess cash and returns remain terrible, over time Harvard has had extraordinary results from such investments and seeks to maintain its position with the top outside managers. Foreign stocks had negative returns as well. But the smaller emerging-market portfolio returned 7.5 percent. In all four categories of equities, HMC managers exceeded benchmark returns.

The other strongly positive investment class was “absolute return”: hedge funds, which can sell securities short or invest in special situations. Here, returns totaled 10.2 percent, versus a negative result for the benchmark. Commodities investments (oil, gas, and timber) produced a modestly positive return well ahead of market results, and the high-yield portfolio matched the benchmark’s essentially break-even result. Only in real estate did HMC trail the market—a difference Meyer attributes to timing. Harvard appraised its properties at the end of its fiscal year, and so reflected current market values for the kinds of opportunistic investments it makes. Most funds will do their appraisals at the end of the calendar year. “There should be some pain” then, Meyer says, “and we haven’t seen it yet in the benchmark.”

In broader perspective, HMC continues

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**Annualized Returns**

- **Domestic equities**: 12.2%
- **Foreign equities**: 6.3%
- **Emerging markets**: 11.1%
- **Private equities**: 19.6%
- **High yield**: 10.5%
- **Commodities**: 13.7%
- **Real estate**: 11.9%
- **Domestic bonds**: 9.7%
- **Foreign bonds**: 7.5%
- **Total**: 15.2%

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