El-Erian for the Endowment

More than a name and face will change at Harvard Management Company (HMC), the investment organization for the University’s endowment, with the arrival early this year of Mohamed A. El-Erian as president and chief executive officer. The appointment was announced October 14. El-Erian succeeds Jack A. Meyer, M.B.A. ’69, who departed September 30 with several senior HMC portfolio professionals and other staff members; they have formed a private money-management firm. Meyer’s departure concluded a 15-year tenure characterized by double-digit investment returns (see “Stellar Swan Song,” November-December 2005, page 58).

Since 1999 El-Erian has been a managing director at Pacific Investment Management Company (PIMCO), the leading fixed-income fund manager, with more than $500 billion in assets. A senior member of PIMCO’s portfolio management and investment strategy group, he has been directly responsible for managing more than $28 billion in emerging-market debt investments. He arrived at PIMCO following 16 months in emerging-markets economic research at a London investment bank. From 1983 to 1997, El-Erian worked at the International Monetary Fund, analyzing policies on debt and country issues. Thoroughly international—his father was an Egyptian ambassador to France and his mother French—El-Erian studied economics as an undergraduate at the University of Cambridge and earned his master’s and doctoral degrees at Oxford.

In a statement accompanying the news of the appointment, University treasurer James F. Rothenberg, who chairs HMC’s board, said El-Erian “has emerged as a savvy investor with a particular knack for identifying opportunities in complex markets, while developing a reputation as a strong and articulate leader” well equipped with a “perspective on global markets and the role of capital throughout the world.”

In a subsequent conversation, Rothenberg talked about the challenges that come with the job. The widely reported search, he said, underscored just how much “taking a job like this at Harvard puts someone front and center with the media.” News interest focuses on the size of the endowment, nearly $26 billion, and the annual disclosure of the compensation paid to HMC investment managers who outperform their market benchmarks: as much as $53 million to one portfolio manager, and $72 million received by Meyer in a peak year. (Harvard notes that private money managers can earn larger sums, but their compensation is not disclosed.)

The search also underscored Harvard’s “recommitment to the hybrid model,” Rothenberg said. A decade ago, nearly all endowment funds were managed internally. Now, only about half the assets are overseen by HMC staff; the rest are entrusted to external management firms, including those launched by HMC alumni. Most peer universities rely wholly on external fund managers. While Harvard apparently won’t go that far, “The skill set of dealing with outside managers” has risen in importance, Rothenberg noted; El-Erian comes from that community.

His appointment may signal an evolving investment climate, Rothenberg suggested, reflecting the “greater opportunity set” outside the United States compared to 15 years ago. Those changes are driven by the emergence of successful southeast Asian economies, and, of late, rapid growth in China and India. At the same time, investors “have to be a little more cautious” about private-equity and hedge-fund investments—HMC mainstays—as surging flows of funds and larger-scale operations make it more difficult to realize superior returns. Those factors make it a “totally apropos time” to examine the components of HMC’s “policy portfolio”—its model for asset allocation, currently with 11 categories of investments—used during the past 15 years.

On the thorny issue of compensation, Rothenberg explained that HMC has retained the deferred-incentive system it uses to reward staff for performance in excess of market benchmarks. Although the amount paid out in any one year has been capped, Rothenberg said, the mechanism of deferring bonuses contingent on future-year performance remains intact, as does the portfolio managers’ long-term earning potential.

In a separate interview, El-Erian said he had been attracted to the job by HMC’s “very smart people” and by the organization’s core “philosophy, which is one of a patient investor” looking for undiscovered opportunities (he cited recent large investments in timberlands) and then waiting for other buyers to catch up. He also valued “a culture of excellence” in which “outperforming is viewed as the norm.”

HMC, he said, could draw on “the brainpower of Harvard” in formulating its investment worldview. The opportunities “are going to be increasingly global in nature”—as both HMC and PIMCO realized, ahead of many American endowment and pension funds. Pursuing those investments depends on a “very clear top-down framework” that includes social, political, and economic analysis (hence the interest in faculty expertise) and the hybrid manager structure, for flexibility in getting the best talent.

The policy-portfolio approach to picking investment sectors is “absolutely right,” El-Erian said, as a sound “secular” footing for decisions. Within that worldview, he said, “The cyclical outlook may differ” for shorter periods, given that markets are not “linear.” That perhaps sug-
An Unconstrained Curriculum

The college curriculum of the future has begun to come into focus, as the Faculty of Arts and Sciences (FAS) this autumn started to discuss reports from the three-year review of the current course of study. Compared to undergraduate requirements today—general education through seven “Core curriculum” courses, a concentration, expository writing, and foreign language—the watchword of the new model appears to be almost radical freedom of student choice, at least by Harvard standards. The focal points for discussion were recommendations by the Committee on General Education, released November 2, and by FAS’s standing Educational Policy Committee (EPC), circulated in draft form two weeks earlier (most reports appear at www.fas.harvard.edu/curriculum-review/).

The findings of the general-education group, cochaired by FAS dean William C. Kirby and Harvard College dean Benedict H. Gross, are basic to any definition of liberal arts. They bear most heavily on the gests a more market- or timing-oriented approach to investing. El-Erian intends to keep personally close to the markets by managing money himself; he described himself as a “player-coach,” and noted his expertise in emerging markets and other fixed-income assets. (He also intends to teach at Harvard Business School.)

As for the higher-profile aspects of his new responsibilities, El-Erian said the compensation “approach is the right one,” with an “incentive-based component that should encourage not just short-term performance but long-term performance.” As to the specifics of the pay package, he said, “There is no God-given way of doing it,” so some elements might be revised.

Nor did he seem fazed by the public aspects of his new position. Citing his role at PIMCO—the preeminent bond investor, and the largest emerging-markets money manager—El-Erian said, “I’ve been under the microscope.” Of his coming responsibilities representing Harvard, he said, “I can live with it.”

Marc Shell

Marc shell is Babbitt professor of comparative literature, a professor of English, a MacArthur Prize Fellow, and these days, as he puts it, “a more or less inaudible stutterer, or stammerer.” That he was “slow of speech” was conspicuous in his youth, when he failed the fourth grade in his hometown of Montreal. His school principal explained to him that stuttering was a “sure sign” of being mentally deficient. He had also had polio, which some local doctors thought lowered the IQ. Today, when he lectures to an anglophone audience in Montreal and finds himself about to stumble over an English word—“money,” say—he substitutes argent, perfectly legal in that bilingual place and a stutterer’s coping device called interlinguistic synonymy. He’s learned other such tactics and tells of them and of much else about this enigmatic disorder in his fascinating new book, Stutter (Harvard University Press). Shell works in several general areas. One is aesthetics and economics, where he has done a two-part study of “the internalization of monetary form in literature and philosophy,” starting with Heraclitus. Another is Renaissance studies, where he has written of sixteenth-century European politics and the works of Elizabeth I. A third is language and nationhood. His Harvard website notes, “Professor Shell... says that these three areas are closely interrelated.” Shell is also co-director of the Longfellow Institute for the comparative study of the non-English languages and literatures of what is now the United States. He is married, with two grown children. These days his son, reports Shell, “is the only person I know who counts himself free to tease me about my speech.”