Yesterday’s News
From the pages of the Harvard Alumni Bulletin and Harvard Magazine

1935 College seniors and juniors are again allowed to cut the last class before, and the first class after, Christmas recess, “but if the records of students who take advantage of this privilege subsequently become unsatisfactory the excuses they offer therefor will be carefully examined.”

1940 The Faculty of Arts and Sciences (FAS), which already gives credit for each year of military or naval science completed at Harvard, extends the privilege to students enrolled in the Civil Aeronautics Administration’s pilot-training program or the 90-day Reserve Midshipmen’s School.

1955 The Corporation orders the replacement of the Memorial Hall tower’s rooftop railing and other metal ornamentation removed in 1945 because of deterioration [unwittingly setting the stage for the conflagration that destroyed all but the base of the tower in 1956].

1960 Addressing the National Interfraternity Conference, Arizona senator Barry Goldwater praises the fraternity system as “a bastion of American strength” and asserts that in colleges without fraternities, such as Harvard, “Communism flourishes.” In response, the Bulletin’s Undergraduate columnist reports, a group of students decide to form a chapter of “Iota Beta Phi” and elect Goldwater its Honorary Grand Wizard.

1970 FAS approves a degree in special studies, enabling undergraduates to structure their own fields of concentration.

1980 The “first United States Croquet Association-sanctioned intercollegiate American croquet competition in modern times” (according to a press release) takes place on the Radcliffe Quad a day before The Game. Yale prevails, 30-27.

2000 Moores professor of biological anthropology Irven DeVore delivers his final lecture in Science B-29, “Human Behavioral Biology” (popularly known as “Sex”), which he has co-taught since 1970, attracting close to a third of all undergraduates during that span with his showmanship and devotion to teaching.

Endowment Gain—and Gaps
The university’s endowment was valued at $37.6 billion on last June 30, the end of fiscal year 2015—a gain of $1.2 billion (3.3 percent) from a year earlier—finally exceeding the peak value (not adjusted for inflation) realized in fiscal 2008, just before the financial crisis. The fiscal 2015 appreciation reflects investment returns during the year (perhaps $2.0 to $2.2 billion—exact figures appear later this fall in Harvard’s annual financial report), minus distributions for the University’s operating budget and other purposes (perhaps $1.6 billion), plus gifts received as The Harvard Campaign proceeds (see page 20).

But that nominal achievement was overshadowed by the relatively modest 5.8 percent rate of return on the assets invested by or under the purview of Harvard Management Company (HMC). In a September 22 letter announcing the results, Stephen Blyth, HMC’s president and CEO since last January, starkly outlined the endowment’s diminishing investment margin relative to its market benchmarks; its recent performance (lagging several peer institutions’ funds); and new objectives and strategies intended to improve performance consistent with the endowment’s role in financing Harvard’s “preeminence in teaching, learning, and research,” as his new HMC mission statement puts it.

Given the relatively challenging investment environment, the 5.8 percent return (after expenses) trailed the 15.4 percent return HMC realized in fiscal 2014. Real-estate and private-equity assets contributed disproportionately to the gains (see chart, page 24); holdings of public stocks produced modestly positive returns, as U.S. equities appreciated (up 12.4 percent), but for—

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The current 10-year annualized inflation measured by HEPI is 2.7 percent—making HMC’s target 7.7 percent. On the evidence, achieving that won’t be easy. (It actually exceeds the 7.4 percent goal HMC articulated a year earlier.) But as Blyth pointed out, “real returns have declined steadily over time,” given low interest rates, greater investor interest in diverse asset classes (lowering returns as more money flows in), and so on. Accordingly, he continued, “Delivering a real return of 5 percent will be more challenging in the current environment than in the past.”

In pursuit of that outcome, Blyth outlined:

- a new, analytical approach to asset allocation, intended to be more flexible and inter-sectoral than HMC’s traditional “policy portfolio.” The new approach gives broad ranges for investment commitments among the many asset classes; for example, compared to the past goal of 11 percent allocations each to U.S., foreign, and emerging-market equities, the 2016 ranges are, respectively, 6 percent to 16 percent; 6 percent to 11 percent; and 4 percent to 17 percent. (For readily traded assets like stocks and public bonds, it is easy to see how such wide ranges could be accommodated annually. It is less clear how HMC would effect comparably large swings in allocations to illiquid assets—private equity, hedge funds, natural-resources holdings, and real estate—where the model envisions ranges of up to 10 percent: more than $3 billion at the current endowment size.)

- a more nimble investment process. Blyth sketched collaboration and cross-asset-class investments taking advantage of the HMC staff’s aggregate knowledge.

- and, always an issue for HMC, with a significant share of assets under internal management by highly paid professionals, a revised compensation system that would apparently tie incentive pay not only to each portfolio’s outperformance relative to its asset class, but also to HMC’s aggregate performance on Harvard’s behalf, in keeping with the mission statement.

Some of the affected personnel will be different. HMC announced that Andrew Wiltshire, head of alternative investments (and the leader of successful timberland investing), is retiring later this year, and Alvaro Aguierre-Simunovic, natural-resources portfolio manager, departed as of October 9; both were among HMC’s most highly compensated staff based on past performance (see harvardmag.com/pay-15), but Blyth characterized fiscal 2015 natural-resources returns as “generally subdued.” On October 2, it became known that Marco Barrozo, head of fixed income, and Satu Parikh, who had just taken over natural resources, had also departed, and that their respective investment portfolios had “been unwound.”

(Boosting results for private-equity and absolute-return investments, where peers have consistently outperformed, will be important to HMC. The recent addition to its board of directors of Joshua Friedman ’76, M.B.A. ’80, J.D. ’82, co-founder and co-CEO of the Canyon Partners hedge fund, and Safra professor of economics Jeremy Stein, who consults with another hedge fund, may provide useful insights.)

Blyth offered a cautious outlook, citing increased market volatility during the past year; changing regulation of financial institutions; the impact of “the eventual rise of interest rates” in the United States; and seemingly high valuations for private-equity and venture-capital investments—another hedge fund, may provide useful insights.)

Blyth offered a cautious outlook, citing increased market volatility during the past year; changing regulation of financial institutions; the impact of “the eventual rise of interest rates” in the United States; and seemingly high valuations for private-equity and venture-capital investments—an “environment…likely to result in lower future returns than in the recent past.”

He concluded on a personal note, emphasizing that “I know that my colleagues…share deeply the special role that HMC plays in the support of our great University.

“We have…laid out straightforward, ambitious investment objectives…We have challenges ahead and much hard work to be done, but I believe we have gained significant traction in 2015, and I am highly optimistic that we can achieve our goals.”

Read a full report at harvardmag.com/endowment-15.

—JOHN S. ROSENBERG