HMC's return on investments is measured by the HEPI annualized basis. 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 53 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 Aguirre-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/pays-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. ’83, 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—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.

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and get beyond application-oriented résumé-building. Doing Harvard “the right way,” he suggested, involves intellectual exploration and being willing “to connect with others different from you.” Holding forth the prospect of a transformative Harvard education, Khurana hoped “your experience of college will be one not of showing the world what you can do, but, rather by discovering what you want to do...” Full convocation coverage appears at harvardmag.com/convocation-15.

Economists’ Exodus

Harvard’s top-ranked economics department has suffered a brain drain, losing five full professors to Stanford’s department and business school in recent years. And the Crimson department has failed in recent attempts to recruit Cardinal prospects—developments notable enough to rate coverage in The New York Times (“The Star Rising in the West,” September 13). Goldman professor of economics David Laibson, Harvard’s chair, told the Times, “Stanford’s keen interest in recruiting Harvard faculty is testimony to our strength,” but the losses sting: microeconomist Susan Athey; education expert Caroline M. Hoxby; econometrician Guido W. Imbens; behavioral economist Alvin L. Roth; and, this term, Raj Chetty, acclaimed for work on poverty and opportunity. Roth is a Nobel laureate; Athey and Chetty were John Bates Clark medalists, the top prize for research in economics by a scholar under the age of 40. Whatever the reasons (access to Silicon Valley’s innovation economy and big-data capacity, proximity to the Pacific region, attractive offers of spousal employment, consulting opportunities, the weather), the momentum has come to administrators’ attention. Responses may include a concerted recruiting effort to bring new members to the department, and finding resources to reconfigure and augment its quarters, in Littauer, which professors have long complained discourage collaboration and increasingly are ill-suited to large-scale, data-intensive research projects.

Health Benefits, Year Two

In 2014, when the University announced that it would impose coinsurance and deductibles on faculty and nonunionized staff members’ health-insurance coverage, in an effort to rein in costs for employee benefits, it encountered sharp criticism from many professors. That prompted President Drew Faust to disclose data underlying the decision and to promise to revisit benefit offerings this fall, for coverage during 2016. The result, communicated to the community in late August and mid-September, is an additional, higher-premium health plan, for participants who wish to eliminate the risk of incurring deductibles or coinsurance charges. The progressive features of Harvard’s health offerings (premiums graduated by income cohorts, and reimbursement for out-of-pocket costs) were made more so—a move perhaps intended to appeal to unionized employees, whose contracts, being renegotiated, still provide them health plans without the cost-sharing features introduced in 2014. None of the new changes will likely lessen the escalation of health costs in the expensive Greater Boston market; indeed, Harvard informed employees that premiums will on average increase 7.3 percent in 2016, more than reversing the reductions realized this year as a result of the shift of costs from the insured portion of their coverage to coinsurance and deductible payments. Full coverage and analysis is available at harvardmag.com/benefits-15.

A New Admissions Architecture?

An 80-institution Coalition for Access, Affordability, and Success—including all the Ivy League universities and their peers, many of the nation’s selective liberal-arts colleges, and numerous public institutions—is unveiling a free portfolio-based suite of digital tools for high-school freshmen, sophomores, and juniors in an effort, it said, to “recast the college admission process from something that is transactional and limited in time into a more engaged, ongoing and educationally reaffirming experience.” The transactional process is the default mode in this era of plunging admission rates, multiple Common Application submissions, test-tutoring, and other maladies (see “What Ails the Academy?” page 64). The member institutions “also hope to motivate a stronger college-going mindset among students of all backgrounds, especially those from low-income families or under-represented groups who have historically had less access to leading colleges and universities” (because they lack good guidance counseling and the means to secure proprietary private help).

The digital tools are intended to “reshape the process of applying to college as the culmination of students’ development over the course of their high-school careers, reducing the unfamiliarity of the application and leveling the playing field for all students.” The application portal will enable each institution to tailor its essays and other individual requirements as well. And because public coalition members have need-based financial aid for in-state residents, and private institutions are committed to meeting admitted applicants’ financial needs in full, the coalition obviously has an ambitious social mission, and perhaps even the intent of pushing back against teaching-to-the-test in primary- and secondary-school curriculums.

Dean of admissions and financial aid William R. Fitzsimmons said of the new program, “Harvard has always done everything possible to ensure that the college application process is accessible for all students. We will continue to honor the Common and Universal Applications, and will also now accept applications from the Coalition Group.”

~John S. Rosenberg