actual engineering. “I love teaching it,” she said, “because they’re not jaded yet, they’re so eager to learn.” (The students remain visibly young at heart: one had inscribed on the rocket fins, “To Infinity and Beyond”; another, in Tiger orange, “‘21”—the planned graduation year.) Perhaps united by their first-gen and low-income identities, groups of students who had completed their apparatus prepared for a test together—calling out variables, leaving through a text, progressing through a tricky formula—with none of the ethnic self-segregation that sometimes arises in other campus settings.

There is early evidence that all this careful work pays off. Gonzalez cited a post-FSI survey indicating a 26-percentage-point gain in students’ confidence in asking questions in class, a 34-point gain in talking to a professor, and more than doubling in confidence in their ability to write course papers. Overall, students reported a 31-percentage-point gain in confidence in their ability to have an academically successful freshman year.

Plenty of upperclass peers reinforce that growing optimism. As at Yale and Georgetown, they serve as residential advisers during the summer. At Princeton, they may also be summer “course fellows,” running sections and mentoring students. Those fellows are not only “approachable near-peers,” as Keith Shaw, director of transfer programs, put it, but also trained educators: FSI alumni and others who choose to become “institute fellows” through the SIPF program benefit from regular, structured instruction in classroom teaching and pedagogical strategy within the McGraw Center. Their presence gives the FSI students immediate access to a multiyear cohort of Princeton undergraduates, many with backgrounds similar to their own, enabling informal connections and conversations.

The fellows also conduct academic-year workshops for students, coordinated by Barton, on myriad aspects of that “hidden curriculum” on campus (how to apply for fellowships, participate in a section, write a research proposal, and master the intangibles, like speaking “prof-o-saurus” during casual conversation or office hours) and beyond (how to network, prepare a résumé, and manage finances). Volunteer faculty members help them substantively, and often participate in the sessions.

Barton has outlined a four-year sequence of experiences that help students choose concentrations, prepare for thesis research, and identify and pursue postgraduate plans. The fellows gain confidence and leadership skills that have increasingly propelled them, Gonzalez reports, to positions of leadership across campus—an outcome strongly supported by her peers at Georgetown and Yale.

What might students learn from this welter of experiences? According to senior Jessica Reed, “You are forced to learn to ask for help, and you are forced to collaborate”—lessons about learning that might well apply to undergraduates everywhere.

How might Harvard and other colleges best address the needs of the students they are admitting from under-resourced high schools and families constrained in means? Is a five-day pre-orientation meaningful? Do certain students need a multweek bridge program? Are there needs extending throughout the undergraduate years?

Rachel Gable, now at Virginia Commonwealth University’s global education office, said her research in Cambridge and Washington, D.C., persuaded her that different institutions could pursue distinct approaches suited to their cultures. Georgetown’s centralized programming reflects both its Jesuit tradition of service and what she called a “multicultural” theme, extending back a half-century: a recognition that groups of people differ, and are best served by devising programs tailored to their needs. Harvard has what she called a “liberal” approach, in the classical meaning of the word: each individual is to be treated as an individual. Thus, its preference for what she termed “capillary” programs and resources, such as enhanced peer advising and training for academic advisers who are available to all students, in the expectation that each will benefit in personally suitable ways.

Evangelists for substantial, centralized programs—Foy at Georgetown, Princeton’s Gonzalez—argue that their efforts focused on cohorts of first-generation and low-income students will, over time, spread across their communities, changing their cultures. Whether the programs are “capillary” or narrower in focus, faculty members agree that virtually all students today could benefit from efforts to highlight the co-curricular and soft skills that contribute to every student’s academic performance, and impel improvements in teaching. To the extent that these initiatives derive from admitting more economically diverse students and assuring that they can thrive once on campus, they of course promote more inclusive interactions among undergraduates whose life circumstances vary more widely than ever before. So far, no campus appears the worse for trying. 

—John S. Rosenberg

“Disappointing” Endowment Returns—and a Protracted Restructuring

On September 19, Harvard Management Company (HMC) CEO N.V. Narvekar reported an 8.1 percent investment return on endowment assets during fiscal year 2017, ended last June 30, observing bluntly, “Our performance is disappointing and not where it needs to be.” Although the positive return (after investment expenses) reverses the prior-year negative 2.0 percent return, HMC’s gains substantially trailed peers’ reported results. Taking into account the
investment return, the distribution of funds for the University’s operating budget, and gifts received, the endowment was valued at $37.1 billion at the end of the fiscal year, up 3.9 percent from $35.7 billion at the end of fiscal 2016—but barely above the peak value (not adjusted for inflation) of $36.9 billion at the end of fiscal 2008, before the financial crisis and recession.

The University is growing (Harvard’s expenses were $4.7 billion in fiscal 2016, up from $3.5 billion in fiscal 2008), and its financial model assumes a rising stream of funds available for distribution from the endowment each year. Of late, that distribution has accounted for 36 percent of Harvard’s operating revenue—about as much as the next two sources, sponsored research support (21 percent) and tuition and fees (17 percent), combined. In the meantime, inflation erodes the endowment’s value (to the tune of 55 billion in lost purchasing power during that period; see harvardmag.com/congress-queries-16). So it is especially worrying that tepid investment performance is sapping endowment growth even in nominal terms, especially during the recent robust gift-giving, spurred by The Harvard Campaign, which has augmented endowment funds by several hundred million dollars annually.

Narvekar was appointed CEO in September 2016 and arrived at HMC last December, charged with overhauling the organization and its strategies to overcome persistent underperformance (see harvardmag.com/narvekar-16). Through the end of fiscal 2016, HMC’s average annualized investment return for the prior decade was 5.7 percent, well below the University’s 8.0 percent planning assumption. That goal, if achieved, would accommodate distributing about 5 percent of endowment value each year, to pay for teaching and research, and earning a 3 percent margin to offset inflation, thus preserving the endowment’s purchasing power. On an endowment corpus of $37 billion, falling 2.3 percentage points short of the return objective amounts to about $900 million of unrealized endowment value in a single year—a sum that compounds with reinvestment.

Narvekar’s initial annual report explained HMC’s recent results in broad terms, and then sketched the sweeping actions under way that are intended to boost performance in the long term.

- Recent results. During fiscal 2017, he wrote, “Performance reflects strong returns from public equity, private equity, and our direct real-estate platform, while natural resources experienced a challenging year.” That general comment on public- and private-equity and real-estate results was consistent with other endowments’ reported returns: 14.6 percent at Dartmouth, 12.4 percent for the University of Virginia, and 14.3 percent at the perennially strong MIT, whose endowment has grown from $9.9 billion at the end of fiscal 2008 to $14.8 billion now. (Princeton, Stanford, and Yale, peers with similar endowments, had not reported results by the time this issue went to press.)

- During the year, according to the Wilshire Trust Universe Comparison Service, median returns for large endowments were in the range of 12 percent to nearly 14 percent.

What accounted for the shortfall at HMC? Narvekar didn’t say. Ending past practice (see the fiscal 2016 reporting format at harvardmag.com/endowment-drop-16), he will no longer detail how the endowment is invested, returns by asset class, performance versus market benchmarks—or, apparently, even five- and 10-year rates of return. That decision reflects internal changes under which HMC intends to manage the endowment as a whole, rather than by discrete asset classes (see below). But it does make it more difficult for outside observers to have a sense of the operation; for instance, since the rate of return is calculated on a time-weighted basis (reflecting when HMC disburses funds to the University and when gifts are received), external analysts will no longer be able to calculate long-term rates of return that are comparable to the prior format, unless the management company decides to do so in the future.

The University’s annual financial report, published each autumn (after this issue closed), may provide further guidance. It details the investment return (perhaps $2.5 billion to $3 billion this year), the operating distribution (perhaps $1.8 billion), and gifts received (perhaps $500 million), yielding the $1.4-billion growth in endowment value during the year. It also shows assets by category for the General Investment Account, which does not align exactly with the endowment.

At the end of fiscal 2016, natural-resources holdings were valued at $3.6 billion. Narvekar observed that for years HMC’s internally managed program “generated strong returns” (investing in timberland and related assets, for instance). “At this stage,” he wrote, “while most assets remain attractive, a few have significant challenges” and the board of directors “took some markdowns on value prior to my arrival, and we have taken more markdowns in fiscal year 2017, which meaningfully impacted our results.”

Absent any quantification from him and whatever information may be gleaned from the forthcoming financial report, if HMC wrote down natural-resources assets by 30 percent in fiscal 2017, that would reduce reported returns by about $1 billion—enough to reduce the total investment return by about 3 percentage points. Nor did HMC break out additional one-time restructuring costs—such as severance payments or losses...
When these changes are fully effectuated, the endowment will be entrusted to a small team of senior professionals—perhaps a couple dozen in all—discussing opportunities and risks across the universe of investment options and making commitments for the endowment as a whole. (See a detailed report at harvardmag.com/hmc-summary-17.) Those new HMC investment professionals will have to establish new relationships with external money managers—a pressing priority after the many changes in HMC’s leadership during the past decade, and its investing constraints in the wake of the large endowment losses in 2008 and 2009. Moreover, illiquid assets are customarily tied up for multiyear periods (the time it takes for a private-equity investment in a company to be made and sold, or to develop and lease a real-estate development). Even with the sales of assets effected last June to provide liquid funds for new investments, there is a limit to the volume of commitments Narvekar and his team can and would confidently make in the near term. From external managers’ perspective, too, it can take years to put newly raised funds to work. So the transition period he invoked last winter may well extend beyond the five-year interval he sketched.

In the meantime, HMC’s board and the Harvard Corporation will have to define the University’s risk tolerance. Harvard differs significantly from peers like Penn, Stanford, and Yale, which own and operate large hospital systems; and from Princeton, given its minuscule professional-school component. The HMC transition period Narvekar invoked may well extend beyond five years.

News Briefs
Centered on Community

**With natural disaster (Hurricane Harvey) and cultural confrontation (in Charlottesville and elsewhere) occupying the national conversation, Harvard leaders chose to focus on this community’s purposes and values as they welcomed the College class of 2021 and the new academic year.**

Speaking at Freshman Convocation on August 29, President Drew Faust drew on a favorite anecdote (“It was on this annual occasion of welcoming the incoming College class that a former dean of the Faculty of Arts and Sciences, the late Jeremy Knowles, described what he saw as the most important goal of higher education. It was, he said, to ensure that graduates can recognize when someone is talking rot”) to draw some lessons for the new circumstances. “In recent weeks we’ve seen threats of global nuclear war, frightening examples of extreme weather, devastating acts of terrorism...and chilling instances of hatred, racism, anti-Semitism, and violence at an American college town not so different from this one,” she said. “What should a uni-