force as they arrived at University Hall for
the November faculty meeting. “Today, we
are asking you to advocate for us,” their flier
read. “As FAS debates this critical question,
we hope you keep in mind how important
this issue is to us as students who will live
through the increasing dangers of the cli-
matic crisis. We need a just, rapid transition
to a decarbonized economy, which is why
Harvard must cut its financial ties to the
fossil-fuel industry....”

The alumni correspondents have apparent-
ly found a way to tap that energy. They
informed Bacow and Lee that “we are work-
ing to engage a broad coalition of alumni
who, like us, recognize the urgency of now.
We have hired organizers to help us reach
and communicate with alumni”- Canyon
Woodward ‘15 and Chloe Maxim ‘15, vet-
eran undergraduate Divest Harvard leaders,
have been retained, for 30 and 10.5 hours
a week, respectively.

That focus on organizing aligns with the
correspondents’ final point: “We think that
the University should use its existing in-
stitutional resources such as the Board of
Overseers and its range of alumni councils to
help the University adjust to and target its
financial resources to the growing climate
crisis.” Although 3,000-plus supporters is
just a percent or so of the alumni at large, it
is a significant slice of potential voters in a
Board of Overseers election, where partici-
pation is typically a low-teens percentage
of those eligible.

An Overseers Challenge Slate

And there may well be such a contest
this year. In early November, Harvard For-
ward announced a campaign, organized by
Nathan Goldberg ’18 and Danielle Strasburg-
er ’18, advocating changes in University gover-
nance—and fossil-fuel divestment. Strasburg-
er, the campaign manager, and Goldberg, strate-
gist and policy adviser, are broadly interested
in youth engagement. They have formulated
a platform that would reserve six seats on the
30-member Board of Overseers for recent
graduates of the College and the gradu-
ate schools; limit voting on those seats to
younger alumni; and promote formal in-
teractions between Overseers and the
Undergraduate Council (UC) and the Harvard Gradu-
ate Council (HGC). One perspective the
younger Overseers might inject, if peti-
tion candidates make the ballot and are elected, is fossil-
fuel divestment.

Their effort brims with digital-era communications and cam-
paign savvy. Within days of the announce-
ment, Harvard Forward had secured UC
and HGC endorsements, a high-profile Bos-
ton Globe op-ed in favor of the campaign, and
times and venues for a baker’s dozen in-
person meetings around the United States and
in Mexico to talk about the initiative and ad-
vance the proposed slate of candidates’ peti-
tions to get on the ballot. With the advent of
online voting last year, the potential exists to
galvanize a significantly higher turnout than
during the last cam-
paign by a petition
slate, in 2016—and
begins obviously, by
building on a base
of motivated divest-
ment advocates.

For full back-
ground on Harvard
Forward, the slate of
petition candi-
dates, and alumni
and student divest-
ment state-
ments, see harvardmag.com/overseers-
challenge-slate-19. Given wide agreement
on the urgency of addressing climate change,
and sharp disagreement within the commu-
nity over how to do so, the issue promises
to resonate. It will be equally interesting to
see whether, at the same time, the Univer-
sity and the faculties find their way toward a
more concerted effort, across the institution,
to support research and teaching on climate
change and sustainable forms of energy.

~JOHN S. ROSENBERG

The Black...and the Red

Harvard achieved its sixth consecutive
budget surplus—some $2.5 billion, up from
$1.6 billion in the prior year—according to
the University’s annual financial report for
the fiscal period ended June 30, 2019, pub-
lished in late October. The surpluses realized
from fiscal 2014 through the most recent year
now total $7.6 billion—the happy result of
the proceeds from the $9.6 billion Harvard
Campaign, a continued benign U.S. economic
environment, and internal spending restraint.
That cushion—surely the envy of other insti-
tutions of higher education—provides some
protection against economic or financial ad-
sertion, and creates flexibility in paying for
the continuing campus construction boom.
It may also serve as a bridge during the mul-
tiyear effort to strengthen the performance of
the endowment, the foundation of the Uni-
versity’s economic model. The accompanying
report from Harvard Management Company
(HMC) indicates both the magnitude of un-
derperforming endowment assets, and the
room it will take to reinvest the portfolio in
pursuit of hoped-for enhanced returns.

Budget Highlights

Revenue increased nearly $300 million
to about $5.5 billion (up 5.7 percent), in part
reflecting slightly less stern restraints on
distributions from the endowment, Har-
vard’s largest source of revenue (35 percent
of the total). Expenses rose by almost $200
million, to $5.2 billion (3.9 percent). Pres-
ident Lawrence S. Bacow’s introductory
letter acknowledged the evident strength,
but cautioned that “we, along with all of
our colleagues in higher education, must
be conscious of the challenges of our cur-
rent climate,” including an inevitable end
of the economic expansion; the new federal
taxes on university endowments (for which
Harvard made an estimated $50-million pro-
vision in fiscal 2019); and uncertain federal
funding for research.

Digging a bit deeper, student income
totaled $1.2 billion. Given continued torrid growth
in executive- and continuing-education reve-
ues (up 12 percent), this is now a half-
 billion-dollar business, a distinguishing fea-
ture of Harvard’s operations compared to
peer institutions. Those fees now essentially
equal revenue (net of financial aid) from all
undergraduate and graduate degree pro-
grams. The endowment distribution rose nearly
$90 million (4.7 percent), to a bit more than
$1.9 billion; a Corporation-approved 2.5 per-
cent increase per unit owned by each school,

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The Faculty of Arts and Sciences’ (FAS) annual financial statement revealed that it has been authorized to spend $960 million so far on House renewal, a sum that will apparently take it through perhaps one-third of the Adams House work. Extrapolating, completion of Adams might bring the bill to $1.1 billion to $1.2 billion, for about 1.05 million gross square feet of space: an indication of just how costly it is to do high-quality renovation, in tight quarters, in Boston’s pricey construction market. FAS is incurring substantial new debt to pursue the work—with the enormous Eliot and Kirkland House projects potentially looming over its budget later in the decade, posing hard choices about investing in faculty growth and new research priorities. Inevitably, that points to future fundraising (not least, to repurpose and re-equip the spaces SES will quit in Cambridge).

In that vein, Harvard continues to enjoy astonishing philanthropic support. Beyond the continued strength in current-use giving, even after the end of the campaign, pledges for future current-use gifts increased nearly $200 million. And even as past pledges for endowment gifts continue to be fulfilled, the balance for such pledges receivable increased by nearly $600 million in fiscal 2019, suggesting several major gifts in the pipeline, at least. An accounting change somewhat bolstered this year’s report, but the salient fact is that total pledges receivable increased by more than $900 million—after the Harvard Campaign.

On balance, the surpluses and pledge pipeline are obvious strengths in an uncertain, volatile world. Harvard’s costs will rise as expensive new facilities open, financial aid increases, researchers need more equipment and computing to conduct their work—and the Graduate Student Union negotiations likely result in enhanced compensation for that large cohort of workers. And of course University leaders are mindful that the endowment, now valued at $40.9 billion, represents little, if any, appreciation in inflation-adjusted terms from the pre-financial-crisis level of $36.9 billion in 2008—a period during which Harvard’s expenses have increased by about $1.5 billion.

The Endowment
In his report, HMC chief executive N.P. Narvekar explained the substantial deployment of endowment assets that has taken...
place during the first two-plus years of his restructuring of the organization, its personnel, and their investment strategies. He also detailed some of the painful costs of effecting those changes.

Some $1 billion of natural-resources assets were written down or written off in fiscal 2017, with a further $100 million of writedowns in fiscal 2019—plus sales of $1.1 billion of such holdings, with another $200 million designated for sale. Even so, remaining natural-resources assets produced a return of -7 percent this past year, and they and other “illiquid anchors” will continue to weigh on performance.

And a significant volume of private-equity, real-estate, and other assets, totaling perhaps $1 billion, has been sold, with other miscellaneous holdings written down or written off, again depressing returns.

Looking forward, at what he believes is the halfway point of HMC’s transformation, Narvekar intends to invest significantly in private equity. The asset class has, historically, delivered superior returns, so HMC’s relative under-investment in such assets has penalized endowment performance. But there is no quick fix. “Early in my time,” he wrote, “we modeled it to take 7-9 years to attain significantly in private equity.”

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That suggests another five to six years to achieve a targeted endowment allocation, and a subsequent multiyear period to harvest the results. In the meantime, HMC and the University are also deep into an exploration of Harvard’s risk tolerance and the appropriate investment allocation and portfolio construction to achieve it.

* * *

This is a long game, with crucial implications for the future fulfillment of Harvard’s academic mission. The institution is fortunate to pursue it fortified with operating surpluses and the support of dedicated, generous supporters. For detailed analysis of the financial and endowment reports, see harvardmag.com/financial-endowment-reports-19.

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**Preparation for a Profession**

Last summer, especially ambitious students enrolling for a Harvard professional education could have begun work simultaneously on their M.B.A., J.D., and Ed.M. degrees while the University was out of session. That possibility is, thankfully, impractical—and contrary to the intent of what is in fact a promising advance in post-college education. Several schools have deployed online instruction during the months before matriculation to introduce managers-, lawyers-, and teachers-to-be to the vocabulary, skills, and teaching styles they will encounter in the classrooms at the business, law, and education schools.

These summer experiences hold the potential for at least two significant educational gains central to the University’s mission. First, they equip students to learn from day one: an investment in their intellectual productivity, as they embark on expensive professional degrees. Second, they assure that increasingly diverse student cohorts—from different socioeconomic backgrounds (and increasingly, countries), college concentrations, and prior work—embark on their learning with some common preparation: a commitment to more fully inclusive schooling at Harvard. Over time, such instruction may be introduced by other University faculties, adopted by other institutions, and even offered for sale (the three-course business sequence already is).

• CORe. Harvard Business School (HBS)

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