Harvard Management Company, Inc.

October, 2009
Harvard Management Company

- World-class investment management
- Focus on generating strong investment returns
- Solely in support of the educational and research mission of Harvard University

“Harvard Management Company is unique among investment management firms in our singular mission to support Harvard by investing and enhancing the University’s financial resources for the long term”

— Jane L. Mendillo
President and Chief Executive Officer, HMC
Harvard University

- **History**
  - Harvard University was founded in 1636 -- celebrating its 373rd anniversary this year
  - Incorporated in the Massachusetts Bay Colony in June of 1650, making it the oldest corporation in the western hemisphere
  - The University is governed by a seven member board
  - Harvard has been receiving gifts and endowment since 1649
    - Real estate from the Class of 1642 -- The Widener Library now occupies part of the site
    - Timber - In 1669, ten merchants of Portsmouth, N.H., guaranteed £60 a year for seven years, paid in lumber products that the College Treasurer sold

- **Structure**
  - Comprised of 10 major Faculties:
    - Arts and Sciences, Business, Medicine, Law, Government, Divinity, Education, Public Health, Design, Radcliffe Institute
  - Approximately 7,000 Undergraduate and 13,000 Graduate Degree Candidates
  - More than 15,000 Faculty and Staff - One of State’s Largest Employers
  - More than 7,000 faculty appointments in affiliated teaching hospitals
  - Alumni and Faculty include: 8 U.S. Presidents, 40 Nobel and more than 40 Pulitzer Prize winners

- **Property**
  - Museums include: The Peabody, Fogg, Sackler, and Busch-Reisinger
  - Parks include: The Harvard Forest and Arnold Arboretum
  - Libraries: Harvard’s combined libraries contain nearly 20 million volumes – the largest academic collection in the world
HMC/Harvard University Ties

- Strong ties to University administration, faculty and students
  - HMC managers teach and lecture on campus;
  - University colleagues provide valuable insight to HMC on topics including financial markets, asset allocation and the global economy;
  - University student interns help move company initiatives;

- Difficult times provide even more clarity regarding our mission to support the University by enhancing Harvard’s financial resources over the long term – resources are used to provide valuable support in the achievement of University’s educational goals
The Endowment was valued at $26 Billion as of June 30, 2009 - After Taking into Account Distributions and Gifts

Total Value of the Endowment 1989 – 2009

$26 billion
Role of the Endowment

- The endowment is a collection of approximately 11,600 separate funds owned by the different schools at the university. Each fund was established with a specific purpose:
  - Sustain a specific school or chair
  - Research programs
  - Scholarships
  - Acquisition and maintenance of art and other collections

- The endowment plays an important role in the financial structure of the university. Endowment gains and other gifts are used to:
  - Increase financial aid and reduce tuition increases
  - Fund new academic initiatives and faculty positions
  - Improve the physical plant and resources for learning

- Annual spending from the endowment represented 38% of the total operating revenue of the University in FY’09 ($1.6 billion or 4.5% of endowment market value)
Returns from the endowment finance about one-third of Harvard’s annual operating budget and are used to support academic programs, provide financial aid and fund laboratories.
Harvard Management Company (HMC)

Facts

- Harvard Management Company, Inc. (HMC) is a wholly owned subsidiary of Harvard University
- Founded in 1974 to manage the University’s endowment, pension assets, working capital, and deferred giving
- HMC’s mission is to generate high and sustainable returns on the endowment and related funds, thereby helping to maintain Harvard University’s tradition of excellence, innovation and leadership in education.
- Governed by a Board of Directors appointed by the President and Fellows of Harvard College
- Staff of approximately 200 investment and support professionals
- Unique within the realm of private endowments which typically invest exclusively through external asset managers
- HMC is a world class investment management company whose “hybrid” investment structure allows it to demonstrate flexibility, innovation and cost-effectiveness in investing Harvard University’s endowment and related funds.
- HMC exploits internal expertise and Harvard University’s intrinsic attributes (e.g., long investment horizon, strong balance sheet)

HMC Board of Directors

- HMC Board membership is strong and active with significant ties to the University and deep financial market expertise
  - Thought leaders in the financial arena
  - Practitioners in various asset categories
  - Managers of leading investment management firms
  - University officers who provide invaluable context
- The Current Board of Directors includes:
  - James F. Rothenberg (Chairman)
  - John Y. Campbell
  - Drew Faust
  - Jacob Goldfield
  - William W. Helman
  - Glenn Hutchins
  - Rob Kaplan
  - Martin Leibowitz
  - Jay O. Light
  - Jane Mendillo
  - Peter A. Nadosy
  - Hilda Ochoa-Brillembourg
HMC Organizational Structure

President and Fellows of Harvard College

Harvard Management Company Board of Directors

President and Chief Executive Officer

Operations/Technology

Portfolio Analytics/Risk

Internal Investment Management

External Investment Management

Compliance

Trust & Gifts
History of the Endowment Asset Mix

Pre-1980s
Invested almost exclusively in domestic stocks, bonds and cash in a typical 60/30/10% allocation mix

Mid-1980s
Shifted about 25% into private investments like venture capital, real estate, oil and gas

Current
The current long term strategy a diversified “Policy Portfolio” with exposure to multiple asset classes
The Endowment Policy Portfolio

- The Endowment Policy Portfolio is the asset mix that is expected to meet the University’s long-term return goals with the appropriate level of risk
- The Policy Portfolio provides a control and competitive benchmark
- HMC has an Active investing style, so the actual asset mix may differ from the Policy Portfolio
- For example, if we perceive domestic equities to be overvalued, we may hold less than the Policy weight
- Value added above the benchmark return
  - If HMC succeeds in outperforming the benchmark for the individual asset classes, the actual portfolio will outperform the Policy Portfolio
  - If tactical asset allocation decisions are correct, the actual portfolio will outperform the Policy Portfolio

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>1995</th>
<th>2005</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic Equities</td>
<td>38%</td>
<td>15%</td>
<td>11%</td>
</tr>
<tr>
<td>Foreign Equities</td>
<td>15</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Emerging Markets</td>
<td>5</td>
<td>5</td>
<td>11</td>
</tr>
<tr>
<td>Private Equities</td>
<td>12</td>
<td>13</td>
<td>13</td>
</tr>
<tr>
<td><strong>Total Equity</strong></td>
<td><strong>70</strong></td>
<td><strong>43</strong></td>
<td><strong>46</strong></td>
</tr>
<tr>
<td>Absolute Return</td>
<td>0</td>
<td>12</td>
<td>16</td>
</tr>
<tr>
<td>Commodities</td>
<td>6</td>
<td>13</td>
<td>14</td>
</tr>
<tr>
<td>Real Estate</td>
<td>7</td>
<td>10</td>
<td>9</td>
</tr>
<tr>
<td><strong>Total Real Assets</strong></td>
<td><strong>13</strong></td>
<td><strong>23</strong></td>
<td><strong>23</strong></td>
</tr>
<tr>
<td>Domestic Bonds</td>
<td>15</td>
<td>11</td>
<td>4</td>
</tr>
<tr>
<td>Foreign Bonds</td>
<td>5</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>High Yield</td>
<td>2</td>
<td>5</td>
<td>2</td>
</tr>
<tr>
<td>Inflation-Indexed Bonds</td>
<td>0</td>
<td>6</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total Fixed Income</strong></td>
<td><strong>22</strong></td>
<td><strong>27</strong></td>
<td><strong>13</strong></td>
</tr>
<tr>
<td>Cash</td>
<td>-5</td>
<td>-5</td>
<td>2</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
<td><strong>100%</strong></td>
</tr>
</tbody>
</table>
## Hybrid Model: A Unique Edge

<table>
<thead>
<tr>
<th>External management</th>
<th>Internal management</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Provides diversification, insight, and perspective</td>
<td>• Provides increased control, total transparency and greater nimbleness</td>
</tr>
<tr>
<td>• Specialized teams around the world</td>
<td>• Extremely cost effective</td>
</tr>
<tr>
<td>• 70% of portfolio</td>
<td>• 30% of portfolio</td>
</tr>
</tbody>
</table>

- Hybrid model maximizes market intelligence and insight across on increasingly global and diverse opportunity set

- We will use the mix of internal and external that best represents our conviction regarding opportunities
FY 2009 was an Unprecedented Year
Longer-Term Results Reflect HMC’s History of Outstanding Returns

*As measured by the median of 164 institutional funds with amounts of over $1 billion, based on information compiled by TUCS (The Trust Universe Comparison Service).
## Individual Strategies that Performed Well

<table>
<thead>
<tr>
<th>Category</th>
<th>Performance Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>International fixed income</td>
<td>Outperformed its benchmark by more than 900 basis points in FY 2009</td>
</tr>
<tr>
<td>Internal emerging markets</td>
<td>Outperformed its market by 370 basis points in FY 2009</td>
</tr>
<tr>
<td>Natural resources</td>
<td>Nearly flat, confirming diversification benefits of this category</td>
</tr>
<tr>
<td>Portfolio Hedges</td>
<td>Positive returns buffered total portfolio performance</td>
</tr>
</tbody>
</table>
Strategic Reorientation of Investment Strategy

- Increased flexibility; reduced leverage
- Rebalanced the portfolio towards undervalued assets
- Increased the depth and breadth of talent in investment team
- Decreased uncalled capital commitments
- Positioned to explore the most attractive investment themes that are expected to emerge from the crisis
- Instituted management of accessible liquidity to be maintained in order to capture opportunities and support the needs of the University
Planned Updates to the Policy Portfolio

- Fewer distinctions among finely tuned asset classes to encourage greater collaboration among our teams in exploring investment themes.

- Greater concentration in areas where HMC has unique competitive strengths such as fixed income and real assets.

- Rigorous reassessment of the fit between the endowment’s risk profile and the University’s needs.

- While guided by the Policy Portfolio, HMC will continue to explore creative new opportunities whether contemplated by the Policy or not (such as our timberland investments were when they were first made).
Outlook: Cautiously Optimistic

- Expect a prolonged period of instability and slower growth in some markets

- There will be many opportunities to create value through prudent and creative investment strategies

- We have reset the building blocks for a solid, innovative and sustainable investment strategy

- It is important to be realistic about near-term returns and about our expectations for several years to come

- Regaining the market value lost as a result of the recent global economic crisis will take time
HMC: Well-Positioned to Generate Value for Harvard University

- HMC provides world-class investment management for Harvard University, and is solely focused on generating strong investment results to support the educational and research mission of the University.

- Long term results and focus – *10 years ended June 30, 2009*
  - 8.9% annual average return
  - 4.5% for policy portfolio benchmark
  - 3.2% for median large fund (per TUCS)

- Active, dynamic investment management
  - Hybrid model – responsive to market conditions
  - Combine best of internal depth and external reach
  - Innovative strategies, wide expertise

- Strong team
  - Investment teams with strong and deep experience
  - Nimble structure, integrated thinking
  - Leaders in their fields