

HARVARD UNIVERSITY  
Office of the President

Massachusetts Hall  
Cambridge, Massachusetts 02138

T: (617) 495-1502  
F: (617) 495-8550

March 31, 2016

The Honorable Orrin Hatch  
Chairman, Senate Committee on Finance  
United States Senate  
Washington, DC 20510

The Honorable Kevin Brady  
Chairman, House Committee on Ways and Means  
United States House of Representatives  
Washington, DC 20515

The Honorable Peter Roskam  
Chairman, House Committee on Ways and Means  
Oversight Subcommittee  
United States House of Representatives  
Washington, DC 20515

Dear Chairman Hatch, Chairman Brady, and Chairman Roskam:

I write with appreciation for your deep interest in higher education and your shared commitment to advancing its purposes throughout your careers. Enclosed is a set of responses, prepared by colleagues throughout the university, to the questions you recently posed to Harvard University and other private colleges and universities. They are intended to enable a fuller understanding of such matters as the nature of our endowment funds, the scale and scope of Harvard's academic enterprise, the support of student success and access through our robust student financial aid programs, and the use of our resources to sustain high-caliber teaching and research over the long term.

America's colleges and universities are admired the world over because of a long-standing and shared commitment—among citizens, institutions, and state and federal governments—to educating individuals regardless of their backgrounds, to driving discovery and innovation, and to serving the public. The federal government is a vital partner in this effort, providing strong federal student aid programs, tax benefits to encourage students to pursue higher education, funding for basic and applied research, and support for charitable organizations, as offered in the tax code.

Harvard is the oldest educational institution in the United States and has relied on charitable support since its founding in 1636. The leaders of the Massachusetts Bay Colony, its population just in the thousands, dedicated £400 to establish a seat of learning in the new world. A gift two years later from the estate of John Harvard led to the adoption of a name that has become synonymous with excellence in every aspect of the manifold mission of American higher education.

We pursue that mission across 13 schools with more than 21,000 students, including 6,700 at Harvard College. Harvard has 333,000 living alumni, more than 271,000 in the United States and others across the globe; many are leaders in academia, government, industry, science, education, and their communities. Harvard University is one of Massachusetts' largest employers, with an annual operating budget of \$4.5 billion in the past fiscal year.

The recognition and support the tax code offers to nonprofit organizations remain critical to Harvard's success and excellence. Fundamentally, as with all tax-exempt organizations, Harvard's nonprofit status guarantees to its supporters and the larger community that its resources are dedicated to its charitable mission and larger societal benefits rather than to profit-making. In addition, while alumni, philanthropists, and others are primarily motivated to give to Harvard to support students and scholars, the incentives in the tax code efficiently encourage their support and have helped build an institution that continues to advance the public good through the pursuit of knowledge.

Harvard's endowment is the university's largest asset and our largest source of financial support. It is a dedicated and permanent source of funding that maintains the teaching and research mission of the university. Through gifts to the endowment, donors ensure that their wishes and aspirations for the university will be carried out today and into the future. The endowment is invested to generate income, which, last year, funded 35 percent of the university's operating budget. While the vast majority of the endowment is restricted by donor wishes (indeed the endowment is made up of some 13,000 individual funds), these purposes align with the larger mission of the university and offer support for leading financial aid programs, groundbreaking discoveries in scientific research, hundreds of professorships across a wide range of academic fields, and one of the world's greatest research libraries. Without this support, either these activities would be diminished or financial resources would have to be found elsewhere.

Unlike for-profit businesses, which expect their products or services to generate the revenues that fund their operations, Harvard and other large research universities rely on a range of sources to ensure financial stability. Tuition alone does not cover the costs of educating a student, and research grants do not cover the full cost of the research enterprise. Increasingly, endowments play a significant role in bridging these gaps and making it possible for Harvard to pursue its mission. Reliance on endowment spending has grown substantially in recent years. Less than 20 years ago, one in five dollars spent was from the endowment; today it is one in three.

Students are key beneficiaries of Harvard's endowment. Harvard College has long admitted students without regard to their financial circumstances, and our robust financial aid program is designed to ensure that all students, regardless of socioeconomic status, are able to attend.

Harvard College's financial aid program provides the means for all of its students to graduate debt-free. Close to 60 percent of students receive need-based grant assistance, with an average award of more than \$45,000 annually. One in five undergraduates has family income of less than \$65,000 a year; as a result, Harvard covers all costs to these families including tuition, room, board, and fees. Harvard's graduate students also receive significant assistance from the university: doctoral students in the Faculty of Arts and Sciences are fully funded for five years or more, and Harvard's professional schools also provide need-based aid. Finally, the endowment helps fund many of the institutional resources necessary to an excellent education, from deeply accomplished scholars, to state-of-the-art laboratories, to

unparalleled library collections. A cost that is borne by the endowment is one that does not have to be paid with tuition dollars.

Our institutional commitment to student access and affordability is just one example of our broader commitment to using our endowment and other resources to advance our essential mission: educating future leaders across a range of fields and creating new knowledge and ideas in the service of society. I hope the enclosed document will provide useful information in understanding our work. Please feel free to be in touch with me or with Suzanne Day, Harvard's federal relations director in Washington at (202) 863-1292, if we can be helpful in clarifying answers or providing further information.

Best regards,

A handwritten signature in cursive script, appearing to read "Drew Faust".

Drew Gilpin Faust

## MEMORANDUM

**To:** The Honorable Orrin Hatch, Chairman, Finance Committee  
The Honorable Kevin Brady, Chairman, Ways and Means Committee  
The Honorable Peter Roskam, Chairman, House Oversight Subcommittee,  
Ways and Means Committee

**From:** Office of Federal Relations, on behalf of Harvard University

**Re:** Request for Information on Endowment

**Date:** March 31, 2016

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Harvard University is pleased to provide the following information in response to the inquiry of the Senate Committee on Finance and the House Committee on Ways and Means into the use of the university's endowment to fulfill its tax-exempt and charitable purposes.

Harvard is an educational institution, founded in 1636 and incorporated in 1650. It is exempt from federal income tax pursuant to Section 501(c)(3) of the Internal Revenue Code. The university includes:

- Harvard College (Faculty of Arts and Sciences)
- Harvard Business School
- Harvard School of Dental Medicine
- Harvard Divinity School
- Harvard Extension School (Faculty of Arts and Sciences)
- Harvard Graduate School of Arts and Sciences (Faculty of Arts and Sciences)
- Harvard Graduate School of Design
- Harvard Graduate School of Education
- Harvard John A. Paulson School of Engineering and Applied Sciences
- Harvard Kennedy School
- Harvard Law School
- Harvard Medical School
- Harvard T.H. Chan School of Public Health
- Radcliffe Institute for Advanced Study

In addition, the university is home to research institutions (such as the Wyss Institute for Biologically Inspired Engineering), and libraries and museums (including Widener Library, the Harvard Museum of Natural History, and the Harvard Art Museums).

Harvard University is one of the world's leading research universities. Harvard's 21,000 undergraduate, graduate, and professional students, along with the roughly 5,300 academics who work at the university, create a vibrant culture of academic and scientific discovery and global leadership in diverse fields of study. The university's operating budget in fiscal year 2015 totaled \$4.5 billion.

## **Introduction to Harvard's endowment**

Your questions are focused on specific aspects of the Harvard endowment, and we have provided responses in detail below. However, we believe these answers would be incomplete without the larger context of the fundamental role the endowment plays for the university, its students, and the pursuit of Harvard's educational and research mission. Accordingly, in the spirit of offering a fuller understanding of the Harvard endowment, we would like to begin by highlighting three overarching points.

### *1. The endowment provides critical support across the full range of Harvard's tax-exempt mission.*

Harvard's endowment, which totaled \$37.6 billion as of June 30, 2015, provides broad and sustained support across the university's tax-exempt mission and activities. Last year, the distributions from the endowment totaled \$1.6 billion, making up 35 percent of Harvard's budget.

Like nearly every private research university, Harvard relies on three main sources of financial support: philanthropy, research funding and student tuition and fees. Both research funding and student tuition and fees have declined as a percentage of the budget over time, although expenses in these areas represent the vast majority of Harvard's costs and activities. Philanthropy, in the form of endowment and current-use gifts, makes up much of the difference. The endowment provides financial support for core functions of the university, such as professorships, financial aid, library collections, research centers and labs, and student activities. Across the university, endowment funds make a critical difference in elevating Harvard's education and research to the highest levels of achievement and excellence. Beneficiaries include both students themselves — through breadth of programs, strength of financial aid, and access to leading academics as educators and mentors — and society at large through new knowledge, innovation, potential cures, and the contributions of Harvard's alumni to their larger communities and the world.

In particular, the endowment has made possible Harvard's leadership in student financial aid. Harvard College's comprehensive financial aid, which consists of grant aid, not loans, ensures that all its students can attend without regard to their financial circumstances. The College's financial aid program, supported by the endowment and other institutional resources, makes it possible for students to graduate without debt. Some \$175 million was dedicated to financial aid for undergraduates in the last fiscal year to provide the nearly 60 percent of students on aid with grants that last year averaged \$45,000. While some students choose to borrow, only one in four graduates in the Class of 2015 had any debt, and their median debt was \$10,900, less than one-third of the estimated national average. Harvard and its peers have led higher education with groundbreaking financial aid programs and have set a new standard for affordability that has been recognized in the federal College Scorecard and by students and families across the nation.

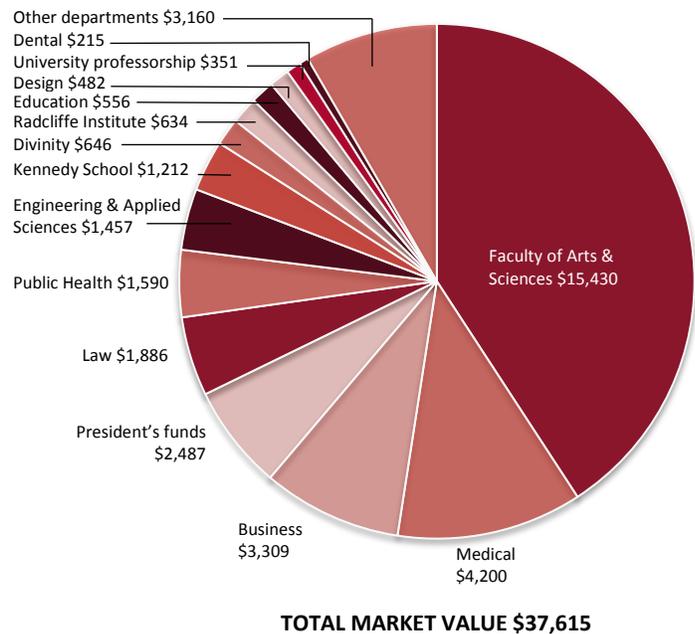
Beyond opening Harvard's doors through aid, the endowment provides essential support across the university for scholarship, discovery, innovation, and excellence in diverse academic disciplines. This long legacy of donor support makes possible the work of senior scientists and academics as well as the development of new scholars. Through the endowment, this work continues today and into the future.

2. Most endowment funds are restricted as to use.

The Harvard University endowment is not a single account, but rather is made up of more than 13,000 individual funds that are invested collectively. Most of these funds were given by donors with specific objectives in mind that take the form of legal restrictions on the use of gift funds. We are required by law to honor those restrictions and provide support for those donor objectives, through endowment returns, now and into the future. Donor restrictions encompass an array of activities aligned with Harvard's educational mission, but must be carefully managed to meet the terms of the gift, whether they relate to purposes such as student financial aid, particular fields of research, fellowships, professorships, library collections, teaching in particular subject areas, or other discrete programs and activities. Of the \$37.6 billion in the endowment, 84 percent — \$31 billion — is restricted by the terms of original gifts. Sixteen percent of the endowment is considered unrestricted for financial reporting purposes.

**MARKET VALUE OF THE ENDOWMENT AS OF JUNE 30, 2015**

*In millions of dollars*



In practical terms, however, even this categorization of funds overstates the availability of unrestricted support for the university. The vast majority of the endowment — across both restricted and unrestricted funds — is dedicated to support one or another of Harvard's 13 schools that include Harvard College as well as 12 graduate and professional schools. Endowment funds are generally not transferable for use across schools; in other words, an endowment given for the unrestricted support of the Harvard Kennedy School cannot be used to support financial aid at Harvard College.

3. The payout rate is set to balance current and future needs.

The university's endowment distribution practice reconciles two competing goals. First, endowment distributions must be spent to make real the aspirations and intents of donors in a sustainable way — this requires that distributions must be stable and predictable, to allow schools to plan for endowment distributions as programs and budgets are developed. Significant, unexpected fluctuations in distribution levels from one year to the next could be disruptive, particularly as the majority of costs in higher education are relatively fixed (i.e., faculty and staff, and physical plant costs). A loss of endowment support in a given year would mean that core functions of the university — from student financial aid and library collections to support for scientific research programs and professorships — could be abruptly curtailed (which would be harmful to the efficient and effective management of our academic programs and would frustrate donor intent to provide sustained support for these functions). This challenge was acutely

demonstrated as the university sought to manage its activities amid the global financial crisis in 2008–2009 and the significant losses in the university’s endowment.

Second, endowment distributions must be set at a level that will maintain the long-term value of endowment assets — taking into account, importantly, the impact of future inflation. Endowment gifts are intended by their donors to benefit both current and future generations of students and scholars with activities that begin now but continue indefinitely into the future. In other words, endowments are perpetual and must be managed accordingly. As a result, and as mandated by state law, Harvard is obligated to preserve the purchasing power of these gifts by spending a modest fraction of their value each year. Spending significantly more than that over time, for whatever reason, would privilege the present over the future in a manner inconsistent with an endowment’s fundamental purpose of maintaining intergenerational equity and honoring donors’ wishes into the future.

Harvard reconciles these goals — steady, predictable distributions and maintenance of purchasing power over time — annually in setting the endowment distribution. The practice has been to target an annual endowment payout of 5.0–5.5 percent of market value, employing a formula that smooths market returns into the distribution over time to provide predictability of income for budgeting purposes.

\* \* \*

We turn now to your specific questions.

**1) What categories of assets are included in your college or university's endowment?**

**For each category, please indicate the amount of funds that are:**

- a. unrestricted;**
- b. permanently restricted by donors;**
- c. temporarily restricted by donors;**
- d. permanently restricted by your college or university (quasi-endowments); and**
- e. temporarily restricted by your college or university.**
- f. For each restricted asset, please describe the uses for which the funds are restricted and the amount of the fair market value of the endowment apportioned to each use. How and why were the restrictions put into place?**

*Endowment Asset Allocation*

A distinctive feature of university endowments is that they must be prudently managed over a long time horizon to support donor intent. Harvard’s (and North America’s) oldest endowed professorship began in 1721 and supports the Hollis Professorship of Divinity. It was endowed by Thomas Hollis, a philanthropist with a passion for liberty and religious expression, with a gift of £500. By the prudent management of the fund, Harvard has been able to ensure not only that Thomas Hollis’ generous gift benefited the faculty and students of his time, but that 300 years

later, it is able to benefit the current generation of scholars at Harvard — and will do so into the future. This long time horizon of investing, to produce current income as well provide for growth, requires endowments be managed to maximize returns to the extent prudence allows.

Harvard University’s endowment is managed by Harvard Management Company (HMC), a wholly owned subsidiary of the university. HMC provides investment management to help ensure that the university has the financial resources to advance its current activities and to confidently maintain and expand its excellence in teaching, learning, and research for future generations. HMC manages the endowment as a pooled fund, meaning that all endowment funds are identically invested. HMC invests across 11 broad asset classes.

The goal of HMC’s strategic asset allocation process is to settle on appropriate asset class targets and reasonable ranges that best suit the long-term risk and return objectives of the university. Prior to fiscal year 2016, HMC employed an asset allocation framework that resulted in a fixed policy portfolio with a fixed target (rather than a targeted range). Below we provide information on past practice as well as the current asset class targets.

Asset Class	FY2016 Range		Asset Allocation	FY2015	FY2014	FY2013
US Equity	6%	16%	Domestic Equity	11%	11%	11%
Foreign Equity	6	11	Foreign Equity	11	11	11
Emerging Market Equity	4	17	Emerging Market Equity	11	11	11
Private Equity	13	23	Private Equity	18	16	16
Absolute Return	11	21	<b>Total Equity</b>	<b>51</b>	<b>49</b>	<b>49</b>
High Yield	0	3	Public Commodities	0	2	2
Natural Resources and Commodities	6	16	Natural Resources	11	13	13
Real Estate	10	17	Real Estate	12	10	10
Domestic Bonds	5	9	<b>Total Real Assets</b>	<b>23</b>	<b>25</b>	<b>25</b>
Foreign Bonds	0	4	<b>Absolute Return</b>	<b>16</b>	<b>15</b>	<b>15</b>
Inflation-Linked Bonds	0	6	<b>Fixed Income</b>	<b>10</b>	<b>11</b>	<b>11</b>
			Cash	0	0	0
			<b>Total</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

### *Endowment Categorization*

Harvard’s endowment, as one of the oldest in higher education, is complex and each year is reported on in detail in the university’s public, audited financial statement<sup>1</sup>. In order to provide further information in response to your question, the chart below includes a detailed breakdown of the endowment across the last three fiscal years.

<sup>1</sup> *Harvard University Annual Financial Report: Fiscal Year 2015*, see page 40 for breakdown of Harvard’s endowment according to the categories identified by the Financial Accounting Standards Board, [http://finance.harvard.edu/files/fad/files/fy15harvard\\_finreport .pdf](http://finance.harvard.edu/files/fad/files/fy15harvard_finreport.pdf)

Endowment Breakdown, in thousands	FY2015	FY2014	FY2013
Original gift (donor-restricted)	\$6,128,992	\$5,836,742	\$5,313,666
Appreciation attributable to gifts	\$20,876,429	\$20,607,552	\$18,419,029
Unrestricted funds functioning as endowment	\$6,184,461	\$6,150,494	\$5,629,211
Restricted funds functioning as endowment	\$2,937,338	\$2,961,930	\$2,672,827
Pledges of gifts	\$1,166,728	\$545,565	\$355,196
Interests in trusts held by others	\$321,597	\$326,973	\$299,560
<b>Endowment totals</b>	<b>\$37,615,545</b>	<b>\$36,429,256</b>	<b>\$32,689,489</b>

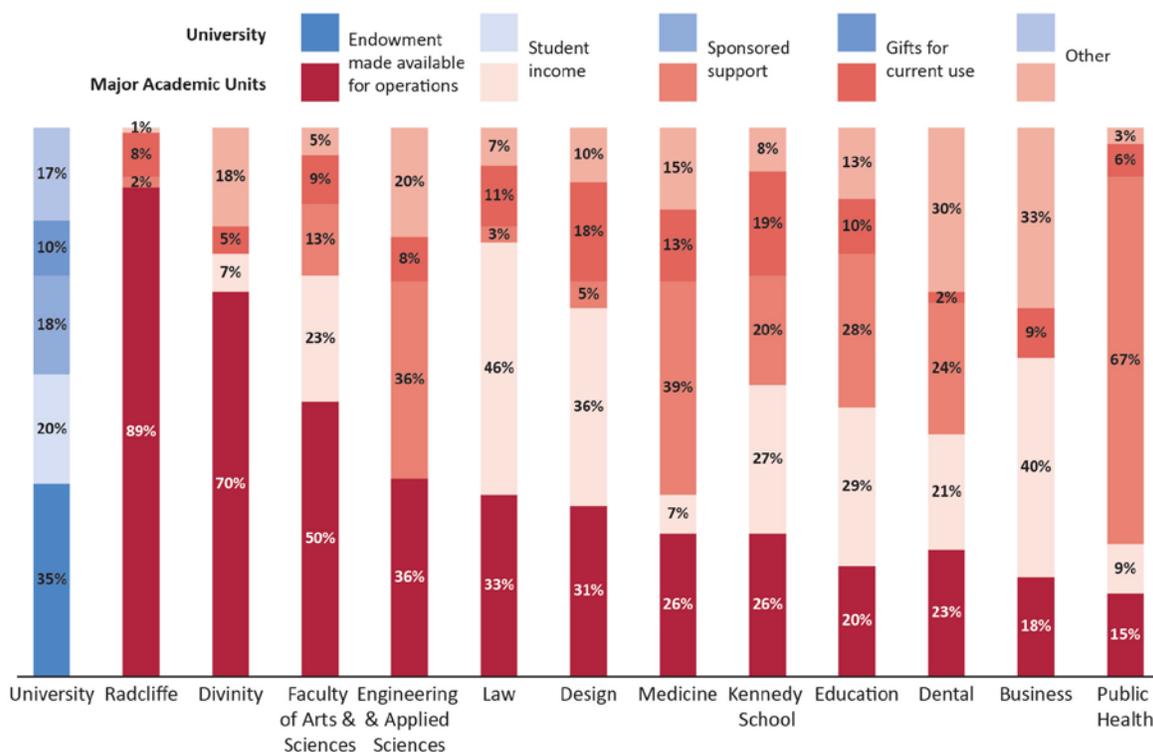
### *Restricted Assets*

As discussed in the introduction, the Harvard University endowment is not a single unit, but rather is made up of more than 13,000 individual funds that are invested collectively. Most of these funds came with specific donor restrictions that the university must comply with by law. Using conventional financial reporting standards, 84 percent, or \$31 billion, of the \$37.6 billion in the endowment is restricted by the terms of original gifts. Sixteen percent of the endowment is considered unrestricted for financial reporting purposes. However, that 16 percent figure includes funds that are dedicated by donor-intent to support one or another of Harvard's various schools, and these funds are generally not transferrable. That is, a gift dedicated to the Harvard Medical School could not be used to fund activities at the Harvard Business School or at the Harvard Law School.

More specifically (as you can see from the earlier chart included in the introduction), the four largest schools account for approximately 70 percent of the endowment value as of June 30, 2015. Of this total, the Faculty of Arts and Sciences, which is home to Harvard College, the Graduate School of Arts and Sciences, and the Harvard Paulson School of Engineering and Applied Sciences, constitutes 45 percent, the Harvard Medical School constitutes 11 percent, the Harvard Business School constitutes 9 percent, and the Harvard Law School constitutes 5 percent.

The distribution of the endowment across Harvard's schools reflects donors' wishes over time and is not in any way equal. This results in substantial differences across Harvard's schools in their reliance on the endowment to support their operations.

### FISCAL 2015 SOURCES OF OPERATING REVENUE



Outside of limitations by school, restrictions encompass an array of activities, which may, for example, limit the use of endowment funds to financial aid, particular lines of research, graduate fellowships, specific student activities, study abroad, acquisitions of books, or teaching in particular subject areas. All endowments are held in public trust, which means that Massachusetts, Harvard’s state of incorporation, exercises the authority for monitoring and enforcing endowment restrictions to ensure that Harvard administers and spends endowment funds in accordance with state law and gift terms.

Of the endowment that is restricted, the leading restrictions include (1) support for professorships and faculty salaries (32 percent), (2) financial aid (21 percent), (3) support for teaching and research programs (8 percent), (4) program initiatives (e.g., cross-faculty programs, global and international programs, and women’s studies) (5 percent), (5) support for libraries and museums (4 percent), and (6) maintenance of the physical plant (1 percent).

**2) Does your college or university hold any investments that are not included in the endowment? If so, what are they, and what are their fair market values and basis? How are they used to further the educational purpose of the college or university?**

In addition to the university’s endowment funds, HMC manages certain other university investments, substantially all of which support the university’s educational and research mission. These include the university’s working capital (needed to support Harvard’s \$4.5 billion of annual operations), pension funds, and split interest trust agreements (i.e., trust arrangements that “split” the benefits between the donor and the university). These other funds, in the aggregate,

totaled \$7.8 billion as of June 30, 2015, \$7.7 billion as of June 30, 2014, and \$6.8 billion as of June 30, 2013.

**3) What is your endowment size, as measured by total fair market value of its assets? What has been the net growth and net investment return on your endowment each year?**

The value of Harvard’s endowment, as of June 30, 2015, was \$37.6 billion. The value of the endowment changes each year as a result of distributions to the schools and departments for operations, appreciation or depreciation, and new gifts.

Consistent with the broader financial markets, the endowment has experienced significant volatility in

returns over the past 10 years. While the average annualized return over that period is 7.6 percent, the returns have ranged from a high of 23 percent in FY2007 to a low of -27.3 percent in FY2009. Despite positive investment returns since the 2008–2009 global financial crisis, the endowment has only just returned to its pre-crisis market value, in nominal dollars. In real (inflation-adjusted) dollars, the endowment remains below the FY2008 value, by approximately \$5 billion.

Fiscal Year	Market Value	Net Endowment Growth	Net Investment Return
In millions			
FY2015	\$37,615	\$1,186	3.3%
FY2014	\$36,429	\$3,740	11.4%
FY2013	\$32,689	\$1,944	6.3%
FY2012	\$30,745	-\$1,268	-4.0%
FY2011	\$32,013	\$4,448	16.1%
FY2010	\$27,565	\$1,427	5.5%
FY2009	\$26,138	-\$10,788	-29.2%
FY2008	\$36,927	\$2,015	5.8%
FY2007	\$34,912	\$5,693	19.5%
FY2006	\$29,219	\$3,366	13.0%

The endowment is managed to sustain the purchasing power of the original gifts while providing a reliable stream of income in good years and in bad. Over time, experience has shown that consistent returns of approximately 8 percent (based on expected real endowment returns adjusted for inflation) are needed to support smooth spending and to cover increased costs due to inflation. When long-term returns are below that target, annual operating budgets come under pressure as the distribution from the endowment is less likely to keep up with inflationary increases in costs.

As Harvard depends increasingly on the endowment to support its academic mission, the university must manage the endowment recognizing the inevitability of market fluctuations. Over the past two decades, endowments have seen overall growth as markets have performed strongly — with the notable exception of the global financial crisis in 2008–2009. However, as recently as the 1970s, the investment market was stagnant across the decade and the endowment realized an inflation-adjusted return of just 1.4 percent a year. As occurred in the aftermath of the global financial crisis, endowment appreciation in good times helps provide stability during financial downturns. This demonstrates the critical importance of prudent management and a long-term investment approach.

**4) How much has your college or university spent each year to manage the endowment, and how many staff and contractors are employed to manage the endowment? For any fees paid to nonemployees for investment advice, asset management, or otherwise, please provide detail on the amounts paid, to whom, and the fee arrangement.**

HMC pioneered and continues to implement a unique approach to endowment management. Under this hybrid investment model, HMC manages money through internal investment professionals, as well as through relationships with third-party (external) managers. The hybrid model results in lower management fees than would be the case with a 100 percent externally managed portfolio.

Compensation paid to internal investment managers is primarily based on performance relative to appropriate industry benchmarks. This is a model that the university adopted from the private sector. Compensation levels for the five highest-paid HMC employees, as well as the HMC CEO, are made public annually in HMC's IRS Form 990 filing. For internally managed funds, performance fees are assessed based on market surveys conducted by third-party compensation consultants, market intelligence gleaned from external managers, and consultation with HMC's compensation committee (a subcommittee of HMC's board of directors). Internal manager compensation is approved by HMC's full board of directors. HMC is currently undertaking a review of the compensation system. While a significant component of compensation will still be linked to long-term outperformance versus industry benchmarks, additional components will be considered that better align with the overall success of HMC.

External investment managers are typically paid both a management fee and a performance fee. The management fee is based on assets under management and is typically calculated and paid quarterly in arrears. Performance fees are based on individual manager performance relative to appropriate industry benchmarks and are calculated and paid annually, if warranted. An assessment of applicable management fees is conducted in the initial investment due diligence phase based on both the investment universe/asset class(es) and style that the manager has targeted. Investments that are greater than 1 percent of the total portfolio are reviewed and approved by HMC's board of directors.

HMC recently conducted a cost-of-management study that compared the total costs associated with managing the actual endowment with a portfolio of externally managed assets similar to the endowment. The objective of the analysis was to estimate the cost differential of managing the Harvard portfolio under the current HMC hybrid model versus a comparable fully outsourced model. The results of the study show that the Harvard endowment model resulted in significant savings for the university over the past decade as compared with the cost of management for a completely external model. The management cost for HMC's internally managed endowment funds is generally below 0.75 percent, while the cost of externally managed endowment funds generally averages 1–2 percent of assets under management.

Three key factors that contribute to these savings are (1) lower cost structure for internally managed portfolios, (2) lower management costs, including performance fees, and (3) lower expenses for general management activities. In addition to these cost savings, the HMC model provides other tangible benefits such as better liquidity and flexibility, and better alignment between performance and compensation (through asset class benchmarks, claw backs and multiyear payout of incentive compensation).

**5) If your endowment is required to file a Form 990 separately from your college or university's Form 990, please provide the endowment entity name(s) and Employment Identification Number.**

The endowment is not required to file a separate Form 990. The university's endowment is shown on the Form 990 of the President and Fellows of Harvard College (EIN 04-2103580), Harvard University's main legal entity. The Harvard Management Company, the university's wholly owned subsidiary that manages the endowment, also files a separate Form 990 (EIN 23-7361259).

**Endowment Spending and Use**

**6) How does your college or university determine what percentage of the endowment will be paid out each year? If any, what has been the target endowment payout as a percentage of the endowment's beginning balance each year? If that answer differs from the percentage paid out, please explain why. Please attach any payout policies or guidance.**

Harvard's endowment funds a significant portion of Harvard's operations. The annual payout decision is carefully considered by Harvard's senior fiduciary board, the Corporation, each year. As described in the introduction, the Corporation's annual payout decision attempts to balance two goals. First, the current payout must fund the operating budget with payouts that are relatively stable and predictable to enable Harvard's schools to develop budgets and avoid disruptions to programs that would be caused by significant year-to-year fluctuations. Second, the payout must maintain the purchasing power of the endowment over time, taking into account the role of inflation. This goal is derived in part from state law and in part from the desire of donors — and as mandated by the terms of their gift instruments, which are legally binding on Harvard — to provide a source of perpetual support for both current and future generations of Harvard students, faculty, and programs.

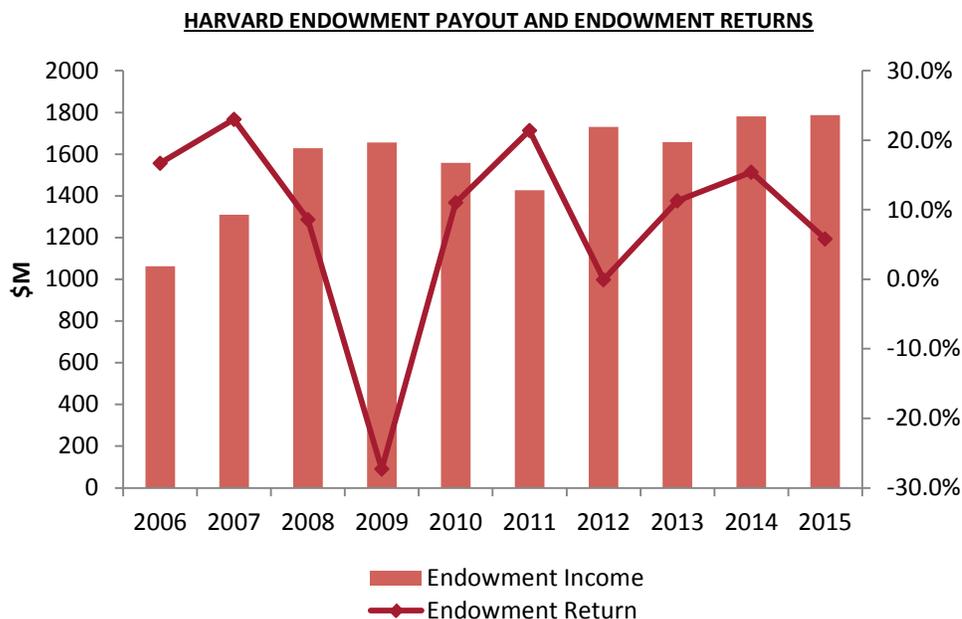
These goals are reflected in the payout approach utilized by the Corporation, which targets a long-term, annual endowment payout rate of 5.0–5.5 percent of market value. Included in this approach is a stabilization factor to smooth market returns, which results in an annual payout rate that is generally lower following years of relatively high investment returns and higher following years of lower investment returns. Adjustments are made in succeeding years, keeping in mind the long-term payout target.

In considering the long-term payout target, a key factor is the expectation of future inflation. As the university's costs increase with inflation over time, the value of the endowment must increase apace in order to maintain its contribution, in real terms, to the university's mission. An institution with a distribution rate equal to its expected long-term nominal investment return rate generally would experience a decline, over time, in the real purchasing power of its endowment, in potential violation of stewardship obligations to its donors and state law.

In addition to the standard annual payout, from time to time, the university considers incremental payouts for priority funding areas on a fund-by-fund basis. As required by university policy and state law, these payouts must be time-limited, financially prudent, and consistent with donor restrictions. Some examples of incremental payouts include one-time funding to acquire specific laboratory equipment and to upgrade undergraduate student housing and dormitories. In FY2015, including incremental payouts, the total endowment payout was \$1.8 billion, resulting in a payout rate of 5.1 percent.

Variations have occurred in recent years between targeted and actual annual payout rates for two principal reasons. The first reason relates to the payout formula utilized by the university, under which — in the name of budget stabilization — annual payout rates are generally lower following years of relatively high investment returns and higher following years of lower investment returns. In either case, as a result, actual distribution rates can fall outside the targeted range. The second reason relates to the timing of the budget process. The endowment payout for each fiscal year (beginning July 1) is set in the fall of the previous year, to give Harvard’s schools a fixed amount to use in the budgeting process. If endowment returns deviate from expectations at the time the payout figure is set, the actual payout rate may differ from what was targeted.

Some of these points are illustrated by the university’s response to the global financial crisis of 2008–2009. The university faced significant financial challenges during the financial crisis when Harvard’s endowment lost 27 percent of its value. Across the university, significant cuts were made through consolidations, staff reductions, salary freezes, reductions in travel, and other changes. To help provide some measure of stability, however, during this disruptive period, the Corporation approved an increased payout rate in FY2010 (6.1 percent) — though even the higher payout rate resulted in a reduction of the total dollars being distributed, given the overall loss in the size of the endowment. In addition to increasing the payout rate, the Corporation provided strategic increases in student financial aid to respond to students and families personally affected by the financial crisis and in need of additional (in some cases, substantial) assistance to continue their studies at Harvard.



**7) Does your college or university have policies regarding spending the endowment principal? Has your college or university ever spent endowment principal? If so, under what circumstances?**

Absent extraordinary circumstances, Harvard policy restricts payouts from any endowment fund to the extent that the market value of the fund, inclusive of the proposed payout, would fall below 80 percent of the original gift value (the historic dollar value, or HDV). In such circumstances, only payouts of the fund's prior-year earnings (i.e., cash interest and dividends) are permitted.

This policy was developed following the enactment of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) by Massachusetts in July 2009. UPMIFA eliminated the earlier prohibition under the Uniform Management of Institutional Funds Act against nonprofits spending below the HDV of an endowment fund, replacing it with an obligation to limit payouts to an amount determined to be prudent and consistent with maintaining the fund's purchasing power over time, after inflation.

That said, the university only rarely spends endowment funds below HDV. After the 2008–2009 global financial crisis, the university had several endowment funds that were below HDV. School and university leadership determined, in compliance with the policy, to spend endowment principal on these funds in order to maintain stable budgets and ensure the continuation of important programs. These expenditures of principal were only temporarily required, and for most funds, subsequent market returns effectively replaced the principal that had been spent.

**8) How much and what percentage of the endowment's beginning balance has your college or university spent each year? How much and what percentage of the endowment's return on investment has your college or university spent each year?**

As discussed in more detail in question 6, the university targets a long-term payout rate of 5–5.5 percent of beginning endowment market value. Over the past five years — since the 2008-2009 financial crisis — the endowment payout rate has more often than not been at the higher ranges or slightly above that target, as the Corporation has sought to provide some stability in operating budgets.

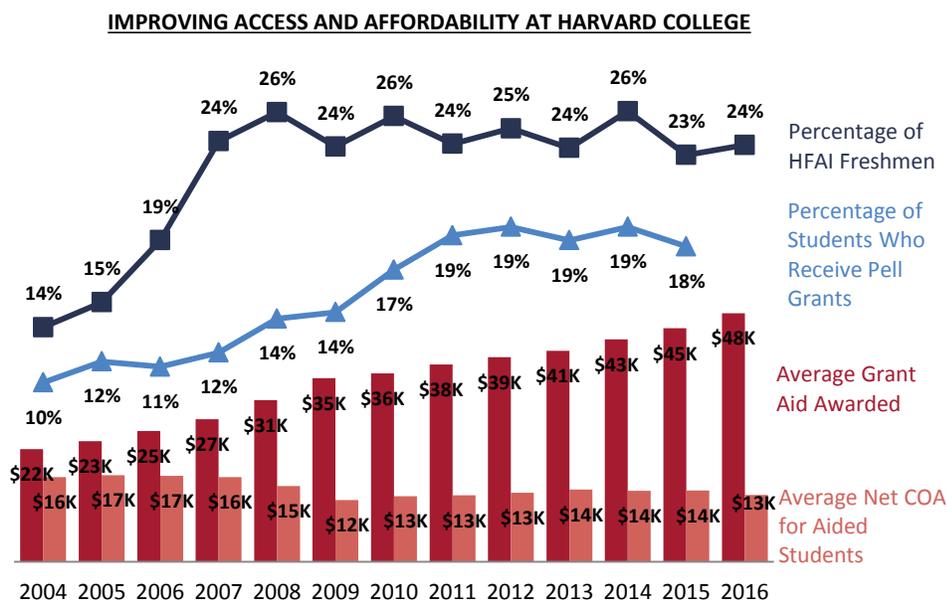
Over the long term, the endowment return must be high enough both to support the annual distribution and cover increased costs owing to inflation. In this way, our target payout rate is calculated to spend a portion — but not all — of the annual endowment return.

Fiscal Year	Endowment Fair Market Value	Aggregate Endowment Payout	Percentage spent of beginning balance	Percentage of Endowment Return Spent
(\$ in millions)				
FY2015	\$37,615	\$1,787	5.1%	91%
FY2014	\$36,429	\$1,781	5.6%	38%
FY2013	\$32,689	\$1,657	5.5%	51%
FY2012 <sup>1</sup>	\$30,745	\$1,731	5.5%	432641%
FY2011	\$32,013	\$1,427	5.3%	26%
FY2010	\$27,565	\$1,558	6.1%	59%
FY2009 <sup>2</sup>	\$26,138	\$1,656	4.5%	-17.27%
FY2008	\$36,927	\$1,628	4.8%	57%
FY2007	\$34,912	\$1,310	4.6%	20%
FY2006	\$29,219	\$1,063	4.2%	26%
1. Investment return was only \$400 and spending was \$1.7 billion.				
2. Investment return was a \$9.6 billion loss and spending was \$1.7 billion.				

**9) What percentage of your endowment does your college or university devote to financial aid for student tuition? How much for other forms of student financial aid? Please specify the types of non-tuition financial aid provided.**

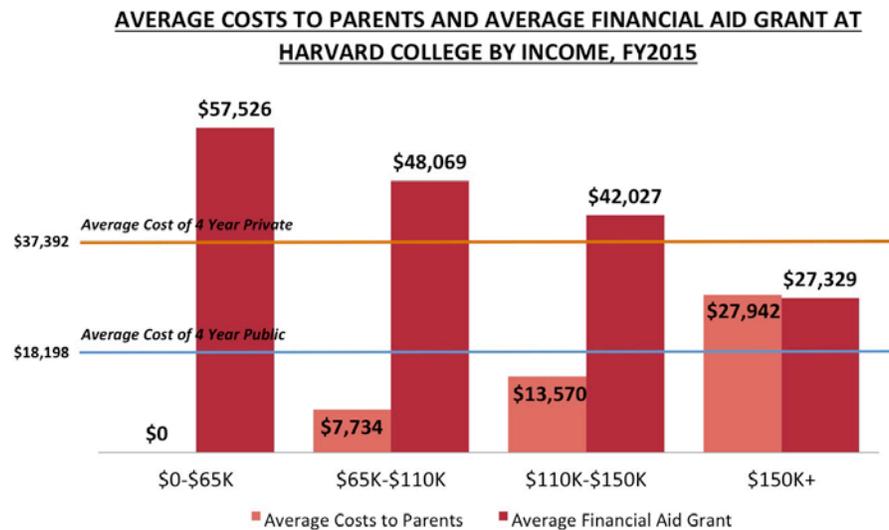
It has long been Harvard College’s policy to admit students without regard to their financial circumstances and to meet the full, demonstrated need of all admitted students through a combination of institutional, federal, state, and outside aid. In recent years, the College has devoted significant resources to grant aid, providing the means to ensure that all students can graduate debt-free from the College. Launched in 2004 and expanded since, the Harvard Financial Aid Initiative (HFAI) set a new standard for comprehensive financial aid through a policy that eliminated the parent contribution for the lowest-income families at Harvard and significantly reduced the parent contribution for many other aided families. Harvard College has

spent \$1.4 billion in grant aid over the past decade on its financial aid programs and had significant success in reaching low- and moderate-income students.



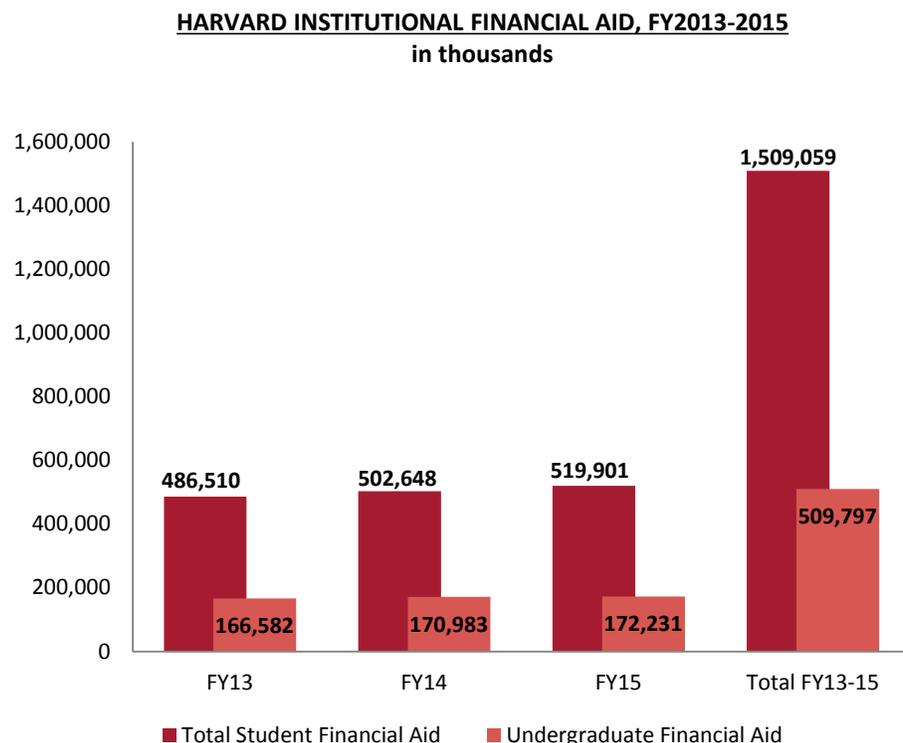
For the one in five undergraduates whose family income is below \$65,000, Harvard covers *all* costs to families including tuition, room, board, fees, and other costs. For families on aid with incomes under \$160,000, Harvard is effectively tuition-free, offering grants that on average fully cover the cost of tuition. In the past year, Harvard also provided \$4 million of additional support for aided students beyond the cost of attendance. These funds cover, for example, travel, winter coats, health insurance, computers, and other emergency support.

Harvard’s comprehensive financial aid is designed to assure that costs are no barrier for any of its students. For low- and middle-income families, the actual cost of attending Harvard College falls below the national average costs for four-year public and four-year private institutions.



Harvard financial aid packages meet full student need through grant aid, not loans, so every Harvard undergraduate can graduate debt-free. Students who voluntarily choose to take out loans (approximately 25 percent of the most recent graduating class) graduated in 2015 with a median debt of \$10,900, less than one-third of the estimated national average of \$35,000. These policies have ranked Harvard College one of the most affordable in the country for low- and middle-income families.

The generous aid policies continue for graduate and professional students across the entire university. In total, Harvard’s schools awarded \$520 million in institutional student financial assistance in FY2015, including \$172 million for undergraduates. Across the university, financial aid solely for student tuition has increased from \$319 million in FY2010 to \$384 million in FY2015. In addition to traditional financial

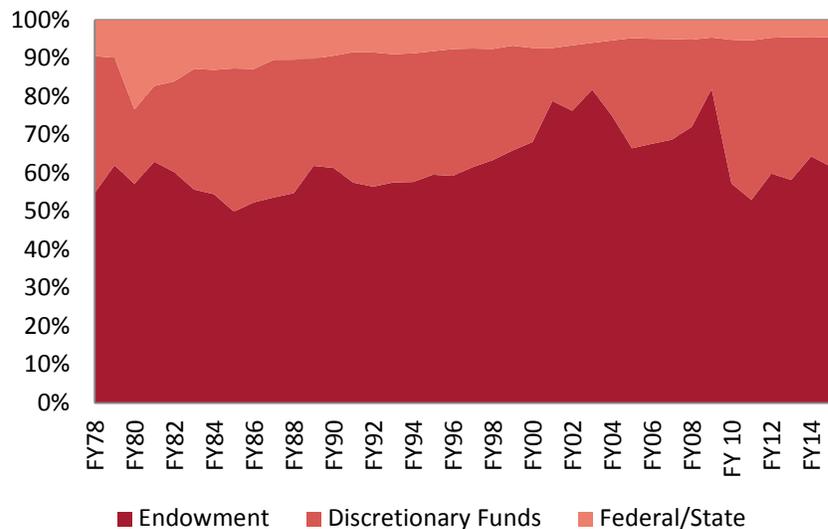


aid for student tuition, Harvard also spends \$136 million a year in scholarships and other student awards paid directly to students, such as stipends, fellowships, grants for summer research, grants for public service, prizes, and awards. Harvard’s aim is to allow graduates to follow careers unimpeded by educational debt, and approximately \$9 million a year was spent on loan forgiveness programs for students in public service jobs or careers below certain income levels.

Generous student financial aid is a defining feature of the university and its funding comes from multiple sources. The endowment and strong donor commitments to financial aid comprise the bulk of this funding stream, which also includes federal and state student aid and general discretionary funds. However, access and affordability are core missions of the university and funding for financial aid is essential, with its costs being borne more broadly as necessary. The institutional commitment is to meet student needs, and that goal dictates the budget. At Harvard College, endowment resources have supported financial aid spending at various levels over the past decade. In FY2009,

following record endowment returns, 82 percent of the financial aid budget came from the endowment. However, this percentage fell to 57 percent in FY2010 and to 53 percent in FY2011 owing to the global financial crisis. Need rose among Harvard’s students as their families were impacted by the crisis, even as Harvard’s endowment lost significant value. Rather than retreat on our commitment to access, Harvard maintained and increased its support for students.

**FUNDING SOURCES FOR FINANCIAL AID AT HARVARD COLLEGE, 1978–2015**



In regard to your question on the percentage of the endowment spent specifically on tuition assistance, currently approximately one-fourth of the University’s annual endowment payout is applied to financial aid for student tuition. At Harvard College, 62 percent of grant aid awarded to students is from over 1,500 endowed funds donated over decades by alumni and friends.

**10) Does your college or university have policies regarding whether it is allowed to accept funds restricted to a specific purpose? Has your college or university ever declined a donation because it was restricted to a certain purpose? If so, please describe those specific scenarios in which your school rejected a donation.**

Harvard has been fortunate to have been supported by donors throughout its history, starting with the gift from John Harvard shortly after the founding of the College in 1636. Some donors give to support the university broadly through unrestricted gifts. Others have particular aspects of the university’s mission they wish to support, such as student financial aid, faculty research, or the

study of specific academic disciplines. If a restricted gift advances Harvard’s charitable mission and priorities, and otherwise meets our gift policies, it will ordinarily be accepted.

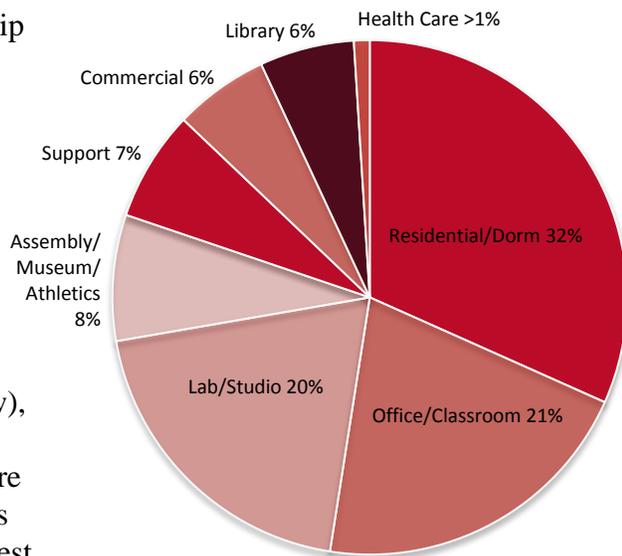
Not all proposed gifts are accepted. Examples where a gift has been declined include:

- Gifts that are unrelated to the university’s mission or that do not align with institutional priorities.
- Gifts earmarked for disease-based research that would be better performed at a hospital (Harvard, unlike some peers, does not own a hospital) or other institution.
- Gifts calling for inappropriate donor involvement in academic programming or research.
- Gifts that would suggest an endorsement of a commercial entity or that would permit the inappropriate use of Harvard’s trademarks.

**11) How much and what percentage of your college or university's endowment is invested in real property (not including REITs or other publicly-traded securities)? Please list and describe your college or university's real estate holdings, including real estate held by the college or university, the endowment, and all related entities. If the college or university has made any Payments in Lieu of Taxes, please provide the date and amount of the payment.**

Since 1636, Harvard University has been based in Cambridge, Massachusetts, with a concentration of buildings and land ownership in the surrounding area. Over the past 200 years, the campus footprint has expanded into the city of Boston, which is home to Harvard Medical School, the Harvard School of Dental Medicine, the Harvard T.H. Chan School of Public Health, and Harvard Business School, making Harvard a campus with two primary host communities. Outside of investment properties (detailed further below), the university owns approximately 650 buildings that total just over 25 million square feet. In terms of acreage, the university holds 5,450 acres with the 3,600-acre Harvard Forest, a research facility in western Massachusetts, comprising almost two-thirds of that total.

USES BY PERCENTAGE OF TOTAL SQUARE FEET



Cambridge remains the home to much of the university, including Harvard College. Fundamental to Harvard College is its residential nature, which creates a vibrant learning community extending beyond the boundaries of classrooms and academic buildings. It is an expectation that students will live on campus during their undergraduate years, and consistently over 97 percent of College students live on campus. First-year students live in dormitories in Harvard Yard, and Harvard’s 12 Houses are home to sophomores, juniors, and seniors. Through these residential communities, students are connected to academic advising, cultural

experiences, social activities, and athletics, and they develop stronger relationships with faculty, tutors, mentors, and other students who share these living environments.

Also in Cambridge are the Graduate School of Arts and Sciences, the Harvard Extension School (providing educational opportunities to a wider range of adult learners), Harvard Law School, the Kennedy School of Government, Harvard Divinity School, the Harvard Graduate School of Education, Harvard Design School, the Radcliffe Institute for Advanced Study, the American Repertory Theater, the Harvard Art Museums, the Harvard Museum of Natural History, and other museums and academic facilities. Harvard also has a significant academic presence in Boston, which is home to Harvard Business School, many of Harvard College's athletic facilities, the Harvard Medical School, the Harvard School of Dental Medicine, the Harvard T.H. Chan School of Public Health, and the Arnold Arboretum. Harvard is also in the process of developing a new science campus in the Boston neighborhood of Allston that will be the principal home to the Harvard Paulson School of Engineering and Applied Sciences and related science enterprises. Harvard has additional academic outposts for specific research or support purposes in Massachusetts, including the Harvard Forest, the Harvard Depository, and a field station facility for Harvard's Museum of Comparative Zoology.

Outside Massachusetts, Harvard has academic and research facilities both in other states and across the globe. While Harvard does not operate full academic campuses outside of Massachusetts, these facilities provide a base for scholars, academics, students, and alumni to undertake on-the-ground research, convene together, and extend the educational reach of the institution. Some examples include the Asia-Pacific Research Center, Harvard Business School's first international research center established in 1999 in Hong Kong; Dumbarton Oaks Research Library and Collection in Washington D.C.; the Harvard Center Shanghai, a regional hub for the university-wide education and research activities; and the Harvard Business School California Research Center in Menlo Park. (In some instances, these facilities and centers are leased rather than owned.)

In and around our home communities of Cambridge and Boston, Harvard also owns real estate that, while often related to its broader mission, is not tax-exempt. For instance, the university has built, rehabilitated, or developed housing for graduate students, faculty, and staff. Around Harvard Square, the university owns and leases commercial property to various entities, such as restaurants, coffee shops, office supply stores, bookstores, banks, sundry shops, drugstores and dry cleaners, which helps maintain a strong campus community and environment. In these cases where the use of the property is not specifically identified as exempt for educational and research purposes, the parcels are on municipal tax rolls, and the university pays local taxes. In the past 10 years (since FY2006), Harvard has paid \$120 million in local taxes in Boston and Cambridge. Details on the past three years of tax payments are included below.

Harvard contributes in numerous ways to its host communities through a broad array of direct programming, supportive services, and civic collaborations. The variety and quality of this engagement is a reflection of Harvard's investment in its partnership with its host communities and in its mission of promoting teaching and learning. Some examples from Boston and Cambridge of these broader services include the Family Van, operated by Harvard Medical School, to provide mobile, core health care services and support to underserved individuals in local neighborhoods; the Crimson Summer Academy, a highly successful university program

that supports economically disadvantaged high school students from Cambridge and Boston in their college aspirations by bringing them to live on campus and participate in a mix of classes, projects, and mentorship to prepare them for success in college; and the Arnold Arboretum, a 281-acre educational and research facility that is open to the public every day as a park and that offers significant community, educational, and professional development programming to reach everyone from local backyard gardeners to Boston teachers. Many of these programs are characteristic of the positive role that academic mission-driven institutions, together with their faculty, students, and administrators, play in their communities. In a recent survey of Harvard's individual schools, Harvard identified a sampling of such programs in Cambridge and Boston and the value of which was estimated to total over \$18 million annually. In addition, Harvard has long recognized how important the vibrancy of our host communities is to the attractiveness and effectiveness of Harvard as an education and research destination. We have, therefore, for decades negotiated with our primary host communities substantial Payments in Lieu of Taxation (PILOTs) agreements. In the past 10 years, Harvard has contributed nearly \$51 million to Boston and Cambridge in PILOT payments. This brings the total of tax and PILOT payments Harvard has made to Cambridge and Boston to \$171 million.

As noted above, Harvard also has a presence in other communities in Massachusetts where limited facilities house specific and critical research and education programs. Our engagement in and the desires of each of these towns are unique and result in a combination of local arrangements. In some towns, like Southborough, where Harvard houses a depository for university documents and records along with a Harvard Medical School satellite facility, we have a regular PILOT payment commensurate with the scale of Harvard's program. In other places, we engage directly with town leaders on specific requests they may have for direct contributions or services. An example is the Harvard Forest in Petersham, where over 3,600 acres of woodlands are utilized for research and education purposes by a staff of 40. The forest is valued by the community for its recreational resources, for the contributions of its staff to the larger the community (such as GIS and mapping services), for providing ecology education and training for local K-12 students, for acting as a catalyst to local and regional planning, for supporting training for statewide conservation commission members, for its local purchasing and hiring, for attracting national and international visitors to this rural area of the state, and for being a consistent source of revenue.

It is through the balance of tax payments, investment in direct programming in our neighborhoods, and robust voluntary PILOT payments to our primary host communities that we help foster strong ties with our communities and derive the mutual benefits we all acknowledge. Below is detail on PILOT and local tax payments for the past three complete fiscal years and the current year to date.

**HARVARD UNIVERSITY PILOT AND TAX PAYMENTS**  
**(FY2013 to Present)**  
**TOTALS**

<b>FY</b>	<b>2016 YTD</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>PILOT</b>	\$3,991,769	\$5,987,478	\$5,206,008	\$6,410,336
<b>TAXES</b>	\$6,429,928	\$12,750,984	\$12,670,093	\$15,842,721
<b>TOTAL</b>	\$10,421,697	\$18,738,462	\$17,876,101	\$22,253,057

**BREAKDOWN: PAYMENTS TO CITY OF BOSTON**

<b>FY</b>	<b>2016 YTD</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>PILOT</b>	\$1,378,009	\$2,260,099	\$2,217,281	\$2,160,288
<b>TAXES</b>	\$3,483,846	\$6,977,198	\$6,675,302	\$6,137,739
<b>TOTAL</b>	\$4,861,855	\$9,237,296	\$8,892,583	\$8,298,026

**BREAKDOWN: PAYMENTS TO CITY OF CAMBRIDGE**

<b>FY</b>	<b>2016 YTD</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>PILOT</b>	\$2,572,235	\$3,646,379	\$2,968,227	\$2,845,406
<b>TAXES</b>	\$2,848,008	\$5,582,340	\$5,829,731	\$5,662,893
<b>TOTAL</b>	\$5,420,243	\$9,228,719	\$8,797,959	\$8,508,299

**BREAKDOWN: OTHER TAXES (NOT INCLUDING BOSTON & CAMBRIDGE)**

<b>CITY/TOWN</b>	<b>2016 YTD</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>WATERTOWN</b>	\$0	\$0	\$0	\$3,875,948
<b>SOMERVILLE</b>	\$89,409	\$174,457	\$165,059	\$166,142
<b>HAMILTON</b>	\$8,665	\$16,990	\$0	\$0
<b>TOTAL</b>	\$98,074	\$191,447	\$165,059	\$4,042,090

**BREAKDOWN: OTHER PILOT (NOT INCLUDING BOSTON & CAMBRIDGE)**

<b>CITY/TOWN</b>	<b>2016 YTD</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
<b>WATERTOWN</b>	\$0	\$0	\$0	\$1,384,142
<b>SOUTHBOROUGH</b>	\$21,525	\$21,000	\$18,000	\$18,000
<b>MEDFORD</b>	\$0	\$0	\$2,500	\$2,500
<b>WESTON</b>	\$20,000	\$60,000	\$0	\$0
<b>TOTAL</b>	\$41,525	\$81,000	\$20,500	\$1,404,642

Harvard Management Company also invests in real estate as a part of its diversified investment strategies. Historically, HMC's real estate strategy focused exclusively on investments in private-equity-style real estate funds run by third-party managers. HMC is now investing a significant portion of new capital in real estate through a direct deal/joint-venture approach in specific market niches. This approach provides HMC much more discretion over capital allocation across markets and sectors and over leverage and development risk, as well as provides lower management fees. HMC's current asset allocation range for the real estate portfolio is 10–17 percent of the overall portfolio.

HMC's natural resources portfolio comprises hard assets, primarily timberland, agricultural land, and other resource-bearing properties around the world. HMC's current asset allocation range for natural resources and commodities is 5–16 percent of the overall portfolio.

## **Donations**

**12) Does your college or university grant naming rights to donors based on certain donation levels? If so, please describe the naming rights program, including how much and what percentage of any naming rights donations your college or university has used for tuition assistance.**

Naming recognition is a long-standing practice at Harvard, dating to 1639 when the recently founded “colledge ... at Cambridg [*sic*]” was named for John Harvard, its original benefactor. Donors to the university may be recognized for a gift through the naming of an endowment fund, physical space, collection, faculty position, scholarship/fellowship, and so forth.

Because of the visible nature of naming opportunities, the university has adopted certain general naming policies. For example, the university generally will not afford naming opportunities to governments or sitting heads of state, nor accept a gift whose name could reasonably be inferred to be a university endorsement of an entity, product, service, government, or commercial venture. The minimum gift to establish and name an endowment fund is \$100,000, with higher minimums in effect for specific types of funds (such as scholarships, fellowships and professorships).

In general, decision-making authority for naming rests with the dean of a school or the leader of a centrally based program or center. However, some categories of naming rights require special approvals. For example, naming a school, or the deanship of a school, must be approved by the Corporation.

The recording secretary reviews proposed names to determine compliance with university policies. As necessary, the recording secretary refers issues to the Gift Policy Committee, a standing group of senior administrators and selected academic leaders, chaired by the provost.

In relation to the question on naming and financial aid, at Harvard College and the Graduate School of Arts and Sciences (which are tracked together for this purpose), named financial aid funds established between fiscal years 2013 and 2015 represented 31 percent (in dollar value) of all gift funds established during that period.

## **Conflicts of Interest**

**13) What conflict of interest policies does your college or university have in place to address financial interest in endowment investments (including potential conflicts of interest among and between governing boards, trustees, executives, internal employees tasked with overseeing the endowment, and external asset managers of endowment assets)? How do you vet board members' potential conflicts of interest? What are your policies if a conflict arises with a member of the board of trustees?**

Harvard Management Company, which manages the university's endowment, has established conflict-of-interest policies applicable to its governing board and employees. These policies are summarized below. For the sake of completeness, the conflict-of-interest policy applicable to the university's governing boards — the President and Fellows and the Board of Overseers — is also summarized below, although these boards are not involved in the management of endowment investments.<sup>2</sup>

### *HMC Board of Directors*

By the nature of their duties — focused on general strategy and oversight — HMC directors typically are not involved in the review of individual securities purchased and sold by HMC, do not have the authority to execute trades for HMC, and do not have material nonpublic information regarding HMC portfolio companies. Still, for the purpose of avoiding any appearance of impropriety, HMC maintains a list of issuers and securities (the “Avoid List”) as to which the directors shall refrain from engaging in personal transactions. The criterion for inclusion on the Avoid List is where HMC owns 10 percent or more of a specific security of the issuer. HMC communicates the Avoid List to directors quarterly, or more frequently as changes to the list are made.

In addition, on a quarterly basis, each director submits to the chief compliance officer a disclosure of all professional affiliations, including the director's employment and board memberships. The chief compliance officer reviews the disclosures to identify potential conflicts, which may arise where a director has a personal investment, or some professional involvement (for example, as a general partner of a fund or as an employee of the fund sponsor), bearing on a Harvard investment opportunity. The chief compliance officer conducts an initial review of each potential conflict, and presents the matter to the Finance and Compensation Committee of the HMC Board of Directors. That Committee — limited to disinterested directors — may direct the director to not participate in HMC's consideration of an investment, divest himself or herself of an investment, resign a conflicting post, or resign from the board.

### *HMC Employees*

The HMC Employee Code of Conduct provides that employees have a duty to place the interests of Harvard ahead of their own interests, and that they shall exercise particular care that no detriment results to Harvard from conflicts between the employee's interests and those of Harvard. The Code of Conduct provides that a conflict of interest exists where an employee has an existing or potential financial or other interest that impairs or might appear to impair the individual's independence of judgment in the discharge of responsibilities to HMC, or where an employee may receive a material, financial, or other benefit from knowledge of information confidential to HMC. Each employee is responsible for reporting any conflict of interest, or potential conflict, promptly to the chief compliance officer as it may arise.

Upon commencement of employment, employees must provide the chief compliance officer with a report detailing their investment holdings. To enable HMC to monitor personal transactions,

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<sup>2</sup> Although not described in detail in the policy summaries below, the conflict-of-interest policies are generally triggered both by financial or other ties that an individual maintains directly, and by ties the individual maintains indirectly through close family members and certain related entities.

employees are generally required to maintain personal investment accounts with brokerage firms that provide HMC with transaction confirmations and holdings statements electronically. Employees must certify annually that their personal investment holdings, as disclosed to the chief compliance officer, are accurate.

Employees are generally prohibited from transacting in a personal investment without obtaining preclearance for that transaction from HMC, which if granted is valid on the day on which granted and the immediately following business day.<sup>3</sup> Preclearance will be denied for trades in the following situations: where HMC holds material nonpublic information regarding the issuer, where HMC is conducting an active trading strategy as to the issuer, or where HMC owns 5 percent or more of the outstanding shares of the issuer.

Other restrictions on an employee's personal investment activity apply to (1) acquisitions of securities that the employee knows are being considered for purchase or sale by HMC or an external manager of HMC, (2) acquisitions of securities in initial public offerings or private placements, and (3) buying and selling (or vice versa) the same security within any 30-day period.

HMC prohibits employees from trading, either personally or on behalf of HMC or others, on material nonpublic information and from communicating such information to others. If an employee is presented with the opportunity to learn confidential information to assist in the analysis of any investment, the employee must clear receipt of that information prior to obtaining the information with the chief compliance officer. If the employee obtains information about an investment that he or she believes may be material nonpublic information (such as advance information concerning the timing and amount of an immediately pending distribution of publicly traded securities), the employee must notify the chief compliance officer. If this officer determines that the information is material nonpublic information, the company will be placed on the Material Nonpublic Information List, meaning that neither HMC transactions nor personal transactions may be executed in securities of that company until that designation is removed. Restrictions also apply to information obtained in the course of employment that is confidential, even if not considered material nonpublic information under federal law.

Employees are required to disclose outside business interests, including service on boards of directors, upon joining HMC and as changes occur thereafter. Employees must certify on an annual basis that the information reported is accurate. Employees may not conduct any outside business or other remunerative activities without the approval of the chief compliance officer.

Service on for-profit boards (other than boards of HMC portfolio companies) is discouraged and requires the approval of the president and chief executive officer of HMC. Compensation for service on the board of an HMC portfolio company is payable to Harvard, not the HMC employee. Service on nonprofit boards requires approval of the chief compliance officer.

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<sup>3</sup> Exceptions to these rules exist in certain circumstances where it is believed the potential for a conflict of interest is negligible, including, for example, investments in open-end mutual funds registered under the Investment Company Act of 1940.

## *University Governing Boards*

When initially elected, and annually thereafter, each university governing board member completes a disclosure statement that captures information about the member's sources of compensation, financial interests, professional activities, and other activities or relationships that may be perceived as presenting a conflict of interest. Members are also required to report potential conflicts as they arise. Potential conflicts are reviewed by the secretary of the University and the senior vice president and general counsel of the University, who determine the resolution of the conflict in consultation with each other and, as appropriate, the president of the university, the senior fellow, or other disinterested persons. Potential conflicts may be resolved in a number of ways, including by the member's recusal from participation in the board's discussion and vote in a particular matter.

To reiterate, as the university's endowment is managed by HMC and not the university itself, the university's governing boards are not involved in the management of endowment investments. To avoid any appearance of impropriety, however, HMC does not make new or additional investments in any investment company controlled by a member of the President and Fellows, the university's principal governing board.

### **Notes on Preparation of this document**

This document was prepared in consultation with the following offices of Harvard University: Office of the President and Provost, Office of the Vice President for Finance and Chief Financial Officer, Office of Institutional Research, Office of the Senior Vice President and General Counsel, Office of the Secretary of the University, Office of the Vice President for Harvard Public Affairs and Communications, and Harvard Management Company.

Should there be any follow up questions, please contact Suzanne Day in Harvard University's Office of Federal Relations, at 202.863.1292 or [suzanne\\_day@harvard.edu](mailto:suzanne_day@harvard.edu).