Dear Alumni and Friends,

It is an honor for me to write to you as the new President and CEO of Harvard Management Company (HMC). I would like to introduce myself, review the current outlook for the endowment and outline plans and opportunities for the future.

My Journey to Harvard

Twenty-seven years ago on 24 February 1988 I received a phone message as an undergraduate at Cambridge University. I remember this date because I still have the piece of paper which requested a return phone call to “Harvard University, USA.” This was the beginning of my Harvard journey.

When I called, I was told that I had been accepted to Harvard as a PhD student, and that I was to be admitted on a full financial aid package. I had four fantastic years at the University, studying under exceptional professors, playing soccer and cricket (I cannot help but mention that I am now proudly the faculty adviser of the Harvard cricket team) and being a Resident Tutor in Winthrop House. But not once during my time at the University did I stop to think, “Where is that money coming from?” It would be ten more years before I made the connection.

My transition from academia to finance was catalyzed by Congress, which in 1993 voted to cancel the Superconducting Super Collider. At the time I was teaching mathematics at Imperial College in London. The job market for academic physicists collapsed overnight and two of my Harvard roommates moved to Wall Street. I joined them and started trading interest rate derivatives, spending most of my career at Morgan Stanley. Initially challenging, I soon grew to love the dynamism of the job, and in particular how one could combine knowledge of markets with analytical rigor to identify and exploit mis-pricings and investment opportunities.

One day a request came to me on the options desk to “price a payer swaption for Harvard.” I knew what the term “payer swaption” meant, but what did “Harvard” represent? Surely not the University? When I saw on the trade ticket “President and Fellows of Harvard College” it was the first time that I became aware of HMC and the endowment. I was told that HMC was one of the most sophisticated of Morgan Stanley’s investor clients. I began to understand the scale of the Harvard endowment and its ability to support academic and social experiences similar to those I had received. I knew there could be no better job than to work at HMC.

I arrived at HMC in 2006 to establish a fixed income portfolio management team, became Head of the Internal Platform in 2008 and in 2012 was named Head of Public Markets. Several years after joining HMC I also started teaching a Quantitative Finance course to undergraduates, and was appointed Professor of the Practice of Statistics within the Faculty of Arts and Sciences. Teaching at Harvard has been a joy, giving me first hand interaction with the spectacular Harvard student body, and providing a tangible connection to the talented students the endowment supports through Harvard’s exceptional financial aid program.

Message from the CEO

APRIL 2015
Our Mission at the Endowment

My time at HMC has included some of the most challenging years for the company. When the endowment faced strong headwinds during the financial crisis, HMC had an exceptional leader in Jane Mendillo to steady the ship, rebuild HMC’s capabilities, improve liquidity across the University, and re-position the portfolio for the future. I cannot imagine anyone wiser, stronger or equipped with better judgment to navigate that difficult time.

As of June 30, 2014, the endowment is valued at $36.4 billion. Our mission at HMC is both to deliver superior returns to the University over the long term in order to maintain our purchasing power for future generations, and to generate sufficient distributions each year in order to fund a major portion of the operating budget. The responsibility upon us is great, and we owe a duty to past, present and future generations of Harvard students, faculty, and staff. The asset base we manage has been afforded to us by the generosity of Harvard alumni and friends from John Harvard onwards. Our annual distributions are vital in supporting the current work of the University: 36% of the University’s operating budget was funded by the endowment in fiscal year 2014, and HMC has distributed $11.6 billion to the University over the past five years. Our future returns will make possible a similar level of support to be provided to subsequent generations.

Continuous Improvement

HMC has had a strong track record over the long term, but there is room for us to improve our performance in the years ahead. I intend to take this opportunity as CEO to thoroughly review and reassess the organization and its investment strategy to ensure we can meet our long-term objectives. HMC has a long history of innovation, and we will continue this tradition of change and evolution in order to take full advantage of tomorrow’s opportunities.

HMC has a powerful platform, combining high-quality internal trade-floor investment expertise, direct capabilities in real assets and deep relationships with the industry’s most talented external managers. We need to ensure we are optimally capitalizing on this hybrid model. I will encourage our teams to reinvigorate the investment debate across asset classes, continually re-examine existing strategies and explore new ones and think creatively about the advantages that the HMC platform offers. We will continue to develop meaningful relationships with the best outside managers and investment partners.

Our investment culture will be based on the principles I have employed with my teams over the last nine years. We will use rigorous analysis and market expertise to identify value and price dislocations, and we will be willing to take advantage of those opportunities in scale where appropriate. As opportunity sets evolve, we will reassess strategies, adapt accordingly and develop new skills where needed.

HMC possesses important differentiation as an investor. We have a single client, an investment horizon that spans decades and a tradition of innovation. We need to ensure we take best advantage of these attributes to consider opportunities that some other investors cannot. Our best opportunities will fall where we can combine our attributes of long-term, patient and flexible capital with the expertise of our investment teams.

The Markets

The current financial markets present a number of challenges to investors. Asset prices are buoyed by abundant central bank liquidity. Measures of risk or illiquidity premia are close to historic lows in certain markets. Real and nominal interest rates remain very low, and indeed are negative in several developed European countries. Yet volatility has re-emerged over the past nine months in unpredictable places, such as the remarkable move in oil prices. Central banks, once bastions of predictability, have become more apt to surprise, evidenced by the
shock removal of the Swiss Franc currency peg. And there remains great uncertainty about how the eventual unwinding of this unprecedented liquidity injection will affect markets and asset prices.

Given the current state of financial markets we may see nominal returns over the medium term that are likely to be lower than experienced in the recent past. Opportunities to generate out-performance, or “alpha”, within the financial markets are continually evolving, driven by changes in regulation, economic conditions and market structure, yet are being pursued by an increasing number of well-capitalized investors. I am focused on maintaining the high quality of our investment team so that we can exploit opportunities in a range of market conditions.

Dedicated to Our Mission

The mission of this organization is special, and it allows us to attract the best talent in the industry. The entire team at HMC is dedicated to achieving our goals for the University. We have a lot of work to do, and we will undoubtedly face challenges ahead. But we are inspired and driven by our mission to provide financial support to one of the greatest academic institutions in the world. If we are successful we know that more students and faculty will be given the opportunity to learn, teach, pursue research (and perhaps play cricket), and ultimately contribute meaningfully to our community and society.

Cheers,

Stephen Blyth, PhD ’92