



Dear Members of the Harvard Community,

For the most recent fiscal year ended June 30, 2018, the return on the Harvard endowment was 10.0% and the value of the endowment was \$39.2 billion. The gain was primarily driven by private equity and public equity exposures. The endowment also distributed more than \$1.8 billion toward the University’s operating budget.

Performance

Asset Class	July 1, 2017 Allocation	HMC Return
Public Equity	31%	14%
Private Equity	16%	21%
Hedge Funds	21%	6%
Real Estate	13%	9%
Natural Resources	6%	(2)%
Bonds/TIPS	8%	1%
Other Real Assets & Private Debt*	2%	(1)%
Cash	3%	0%
Endowment	100%	10%

**This group comprises residual private investments of the former public internal platform, excluding natural resources. It also includes non-private equity investments of the former private equity silo.*

While we are not pleased with this performance, we are mindful that ours is an organization and a portfolio in transition. A quick look at our asset group returns makes two issues clear. First, there are certain parts of the portfolio that need work. We understand this shortcoming extends beyond a single year’s performance and are hard at work to improve those asset classes for the future, as we are working to improve every part of the portfolio and will always do so. Second, looking beyond the returns of individual asset classes, asset allocation—or risk level—was the dominant factor in the overall returns. In general, the higher the risk level, the higher the return.

All of this said, as sophisticated investors well know, there are very limited conclusions that we can draw from a single year of either manager performance or asset allocation. Indeed, such superficial focus can lead to unwise or even dangerous conclusions. Had this past year’s return been significantly higher or lower, it still would not be reflective of the work we are undertaking, nor change the path we are pursuing. This is a reality that will apply to the remaining years of our transition as well. As I told HMC’s Board prior to accepting this position and have stated in previous letters, the significant changes we are undertaking require a five-year timeframe to reposition the organization and portfolio for subsequent strong performance. At the close of this past fiscal year, we were 19 months into the execution of the plan and we remain focused on implementing that strategy.

Review of Progress

High-quality people, culture, and investment processes drive top long-term returns, just as they did at the endowment I previously led. Short-term returns should never drive long-term strategy.

Accordingly, in addition to our focusing on the portfolio, significant attention is paid to our people, culture, and processes. Since I have discussed those at length in the past, I will not belabor them here. Rather, I will provide a brief update on what we have done to progress organizationally.

Internal Platform

- Early in fiscal year 2018, we spun-out two relative value platforms, supporting both with investment.
- As was well publicized, we spun-out our large internal real estate platform to Bain Capital. We are pleased that the former HMC real estate team is now at Bain and that they continue to manage a sizable pool of capital on HMC's behalf.
- This past spring, we also spun-out our credit platform, supporting it with investment.
- The natural resource team is now the sole internal platform at HMC. This team has made great progress in their multi-year repositioning of the portfolio, selling certain assets and improving the management of others.

The Generalist Team

The HMC Generalist Team was officially formed just prior to the start of fiscal year 2018 and has, therefore, been functioning for over a year. While some team members have been trained as generalists, others bring deep specialist experience. The investment framework and accompanying analytics we are developing serve as our common language.

While it will naturally take a few years for talented specialists to develop fully as generalists, our early progress has exceeded my expectations. Furthermore, HMC's investment and organizational cultures are evolving to foster the kind of internal discussion and debate needed to support thoughtful investment decisions.

Critical Frameworks

- We have developed our fundamental investment framework and completed most of the accompanying analytics. We continue to evolve and improve them, as we always will.
- Our portfolio liquidity framework was developed over the course of fiscal year 2018 and plays a critical role in our management of the portfolio. Importantly, we are now engaged in highly collaborative and deep discussions with Harvard's vice president for finance, Tom Hollister, his colleagues, and the HMC Board to ensure that we best serve Harvard's needs.
- Our risk framework was completed over the course of fiscal year 2018. As planned, it provides an important guidepost for our portfolio. We will soon engage the HMC board of directors in conversation to determine Harvard's risk appetite. Based on past experience, I would expect this to be at least a two-year exercise.

Looking Ahead

While my first 19 months at HMC have featured some unkind surprises, there has been one especially welcome discovery: HMC has an extraordinarily talented, skilled, and dedicated team on both the investment and support sides. If I could pick the one asset on which to build an organization, this would be it. It is therefore our opportunity, our obligation, and well within our capacity to effect this turnaround and generate long-term success for Harvard.

I often hear the opinion that HMC's endowment is too large to generate attractive returns, but as peer endowments with similar assets under management have shown, the size of the endowment is no excuse for muted returns.

As I have stated before, we are in the midst of a five-year transition. Developing our investment team into generalists, building the systems to support our investment framework, and repositioning the portfolio—reducing exposure to certain illiquid assets, while building exposure to others—takes years to complete. We are constantly looking to evolve and improve, but the basic plan has not and will not change. Therefore, observers should not expect future letters to recount dramatic changes.

Our work continues apace to position HMC for long-term success and ensure that Harvard University has the means to continue its vital role as a leader in teaching and research for future generations.

Best regards,



N.P. "Narv" Narvekar
Chief Executive Officer