Q&A with Jane Mendillo
President and CEO, Harvard Management Company

For Jane Mendillo, her birthday is no longer her own. Forever associated with “the day Lehman Brothers filed for bankruptcy,” September 14, 2008, and the months immediately following, remain indelible memories. “I returned from a birthday dinner with my husband and found multiple voice and email messages from the office,” she says. “The next morning at 7 a.m., we began what became a daily meeting to review changing market conditions and make adjustments. We worked on the problems in our portfolio daily

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For This Alum, Loyalty Is the Name of the Game

Boston Red Sox aficionados of a certain age know that there are two kinds of fans: those who have supported the team through decades of thick and plenty of thin—and those who have cheered for them ever since they won the 2004 World Series. Jeff Scruggs AB ’85, MBA ’91 is—proudly—the former.

Scruggs’s devotion is evident in his Manhattan office, which he calls a “Red Sox shrine.” It is brimming with all sorts of souvenirs and Fenway Park paraphernalia. His loyalties extend to his alma mater, too. For years, he and his wife, Robbin Mitchell MBA ’92, have given generously to Harvard in various ways. Most recently, they established deferred gift annuities. These will provide the Scruggses and their beneficiaries with quarterly payments that will begin in the future. The deferral is advantageous because it increases their current income tax deduction and the level of future payments. A managing director at Goldman, Sachs, Scruggs naturally thinks ahead when it comes to finances. As he explains, the deferred gift annuity is well aligned with his long-term goals. “We don’t need any return on the money until I’m of retirement age. So we deferred payment until then and kept contributing—which means that the returns that we’ll be receiving keep increasing. This also enabled us to give money that would be used both immediately and over time.”

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and, thanks to that active management, 2008 was less damaging than it might have been.”

On September 9, 2009, nearly a year later, Gift Strategies had the opportunity to ask Mendillo to reflect on the past year, the state of the endowment, and what the future holds.

Q: What was last year like?
I certainly did not foresee that my first year as CEO of Harvard Management Company would be the most unusual year for the markets in several generations. In September 2009, we announced that the endowment’s investment return for the year ending June 30, 2009, was minus 27.3 percent. While Harvard’s endowment has experienced negative returns in prior times, this was the sharpest downturn for our fund in many, many years. Clearly, the last year was difficult for Harvard, as it was for most of our peer institutions. While we suffered significant losses, the year was not without its bright spots. I believe that Harvard came through as well as we did because we did not panic and we kept our long-term focus.

Q: How has the management of the endowment changed in the wake of the economic events of the past year?
We’ve made changes to the team and the portfolio along a number of dimensions, including our organizational structure, our strategic orientation, and our liquidity position.

Regarding the organizational structure, we’ve built a new management team here this year, creating a new chief operating officer position within HMC, filled ably in October by Bob Ettl, who joined us from Allianz/Pimco. In addition, I appointed two experienced and talented HMC portfolio managers, Stephen Blyth and Andy Wiltshire, as head of internal management and head of external management. These three new positions allow us to better mesh the investment strategies of individual managers and to assess our opportunities more clearly across the portfolio, as well as to provide excellent operational support to those managers. We have also added several new portfolio managers who add depth and breadth to our teams in areas including Asian markets, equity arbitrage, real estate, and externally managed funds. We continue to employ a “hybrid model” of investment management, meaning that we employ a mix of internal and external managers in the active investment of Harvard’s endowment assets. Whether internal or external to HMC, we are determined to seek out exceptional individuals with unique investment insights and who will drive value for the endowment portfolio over the long term.

In terms of our strategic vision, there are a few adjustments there as well. We have sharpened our focus to concentrate on the “best of the best” investments and relationships for inclusion in the Harvard portfolio. Our bar is very high. We are committed to diversification, but not for

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JANE MENDILLO
diversification’s sake—every strategy must add value. We are looking to expand our sights beyond existing asset classes and working across disciplines on cross-sectional investment themes. We know the value of being an early adopter of new strategies, as we were with asset classes like private equity and timber. We will look to add weight in areas where we have specific competitive or knowledge advantage.

Finally, we have taken actions to increase liquidity and reduce leverage across the portfolio. The University’s reliance on the endowment has grown and so we need to be aware that we must be positioned to meet that need. The flexibility that comes as a result of these combined actions will also position us to invest in new themes coming out of the financial crisis.

Q: What is the long-term investment strategy for HMC moving forward?

Our long-term goal is to seek substantial growth in endowment assets while managing investment risk on behalf of the University. We remain committed to the basic principle of managing and measuring ourselves against a Policy Portfolio benchmark that is focused on long-term returns and appropriate risk management. We have made and we will make changes to the Policy Portfolio as our long-term market expectations change and/or as the University’s risk profile changes. Harvard has done very well over the long term—the Policy Portfolio and active management in relation to the Policy Portfolio have worked. Over the last 10 years, the average annual return on the endowment has been 8.9 percent, versus the Policy Portfolio return of 4.5 percent, amounting to $13 billion of value-added over the Policy Portfolio return, and $18 billion of value-added over what would have been earned by a simple 60/40 stock/bond portfolio. In the near term, we may adjust the Policy Portfolio in ways that make fewer distinctions among discrete asset classes, concentrate more in areas where HMC has unique competitive strengths such as fixed income and real assets, and better fit with the University’s risk profile. There will be many opportunities to generate value through prudent and creative investment strategies in the coming months and years. However, we must be realistic about HMC’s ability to fully reshape the current portfolio in the short term. It will take substantial time and effort to regain all of the market value lost as a result of the global economic crisis.

Q: Why did you choose to come back to HMC?

When I came to HMC in 1987, I felt energized and fortunate to be in the Harvard environment, and I still feel that way today. Endowment management is endlessly intellectually challenging. I interact with smart people on the cutting edge of their fields on a daily basis. We are all dedicated to supporting this great university through the generation of strong investment returns. I am passionate about our mission. There are aspects of managing investments in an endowment that are very specific to endowments—this is more than just investment management. After 22 years—and it is hard to believe it’s been that long since I first walked through the doors of HMC—this is still the best job I can imagine and the most important work I can conceive of doing.

To read the Harvard Management Company Endowment Report or learn more about Jane Mendillo’s vision for HMC, please visit:

Harvard Management Company Endowment Report

Harvard Magazine Profile

Harvard Gazette Interview
http://news.harvard.edu/gazette/story/2009/05/guiding-harvards-endowment/
When Bob Giles NIE ’66 says, “Freedom of expression is very fragile in many parts of the world,” he speaks from experience. With an award-winning journalism career spanning more than 50 years, Giles made free speech advocacy paramount in his work, earning him the Scripps-Howard Foundation’s Distinguished Journalism Citation for “outstanding public service in the cause of the First Amendment.”

In 2000, Giles became the curator of Harvard’s Nieman Foundation for Journalism. Here he oversees the oldest fellowship program for midcareer journalists in the world. Giles values the perspective and perseverance that journalists from other countries bring to the program. “In many cases, our international fellows pay a dear price just to be journalists. Many of them have been in prison or beaten or been chased by their government. When the American fellows learn of these experiences, it’s really an eye-opening experience for them.”

When Giles speaks of the diversity and depth of the Nieman program, he also speaks from experience. In 1966, he was a fellow himself. “My Nieman year was one of the best years of my life—and for my wife Nancy, too. So we both have a deep affection for our time at Harvard.”

In 2007, the Gileses established a charitable remainder trust (CRT) to support international journalists at the Nieman Foundation. This decision was a way of both giving and receiving. As Giles explains, “I feel very strongly that we all take away from Harvard an enormous amount of knowledge, experiences, friendship, and memories and that, when the opportunity arises, we should give something back. Because of the attractive nature of the CRT—where you can make the gift and get some income back—it seemed like a wise investment.”

Through their CRT, the Gileses are contributing to the longevity of international fellowships as well as their own income stream. In return for their generosity toward Harvard, they will receive quarterly income for life as well as significant tax benefits. Bob Giles is understandably proud of the global ripple effect that the Nieman Foundation often exerts on freedom of expression. “The international fellows return to their countries and can be a force for change, strengthening the ability of journalists to function in a free and independent way,” says Giles.

Just as many fellows return to their homeland to share their knowledge and experience, Bob and Nancy Giles returned to Nieman to do the same. Says Bob, “We take great joy in being part of the Harvard community. Being the steward of this great program is an honor to me. It’s almost like having a new fellowship every year.”
You can count on Harvard when you establish a Harvard Charitable Gift Annuity.

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To learn more
Contact Harvard University’s Planned Giving professionals at 800-446-1277 or pgo@harvard.edu to obtain personalized information on the income and tax benefits that are available to you.
For Scruggs, supporting Harvard’s immediate needs is also important. “I’m a big believer in making sure that the College is always sufficiently funded—to not only pay the heat, light, and electricity—but to provide need-based scholarships. We would have to be blind to not understand what’s happened to the endowment and that it has to be built back up again. It all, in my opinion, goes fundamentally to the same place. It goes toward enhancing the College, making sure its educational efforts remain first-rate.”

Scruggs’s grandfather attended Harvard, as did his parents and wife. He sums up his allegiance this way: “I come from a Harvard family. We always had the belief that the University served us very well and we have to return the favor. So that’s one of the reasons why I remain very loyal.”

“...to not only pay the heat, light, and electricity—but to provide need-based scholarships.”

JEFF SCRUGGS AB ’85, MBA ’91

How to Make a Bequest to Harvard University

Leaving a bequest to the University is easy—simply include the following language in your estate plan:

“I give (________ dollars or ______ percent or all of the residue of my estate) to the President and Fellows of Harvard College, a Massachusetts educational, charitable corporation, for the benefit of (School or Unit).”

For many alumni and friends, a charitable bequest is the easiest and best way to make a gift to the University. A number of the most powerful gifts with an enduring impact have been bequests, including the University’s first, from John Harvard in 1638.

We will be happy to help you draft language so that your gift is used as you intend. If you have already made a bequest provision for Harvard, we thank you for your thoughtful and generous support! Please let us know about it to ensure a smooth transfer process for the gift from your estate to Harvard in the future.

If you would like assistance with the terms of your bequest provision, please contact University Planned Giving professionals at (800) 446-1277 or pgo@harvard.edu.
Dinner and discussion on

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Join us to learn about family wealth and governance, the Harvard endowment, and charitable planning techniques that can benefit you and your family, as well as Harvard.

If you are interested in sponsoring a session in your area, please let us know.

Please call Jane Verrill at (800) 446-1277 for more information.

UPCOMING SESSIONS INCLUDE:

WELLESLEY, MASSACHUSETTS
WEDNESDAY, DECEMBER 2, 2009

SARASOTA, FLORIDA
TUESDAY, FEBRUARY 23, 2010

LOS ANGELES, CALIFORNIA
TUESDAY, APRIL 6, 2010

Guests enjoying a Family, Finance, and Philanthropy program in Denver. The evening was hosted by Terry Considine AB ’69, JD ’71, P’07, ’05 and Betsy Callaway Considine MBA ’77, P’07, ’05, and A. Barry and Arlene Friedman Hirschfeld P’98, ’93.

2. Terry Considine AB ’69, JD ’71, P’07, ’05
3. Aida Witt, Kenneth Witt AB ’80, JD ’83, P’08, and Gwen Swenson-Hale
4. Charles Collier MTS ’73, P’99 and A. Barry Hirschfeld P’98, ’93
5. Jennifer Pline, Arlene Friedman Hirschfeld P’98, ’93 and Lisa Robinson
How to Reach Harvard’s Planned Giving Professionals

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<th>Department</th>
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<tr>
<td>University Planned Giving</td>
<td>(617) 495-4647 Anne McClintock</td>
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<td>(800) 446-1277 Peter Kimball</td>
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<tr>
<td>Business School</td>
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<td>Harvard College, GSAS</td>
<td>(617) 495-4352 Peter Kimball</td>
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<td>Law School</td>
<td>(617) 496-9265 Charles Gordy</td>
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<td>Medical School</td>
<td>(617) 384-8449 Mary Moran Perry</td>
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<td>(800) 922-1782</td>
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<tr>
<td>Senior Philanthropic Adviser</td>
<td>(617) 495-5218 Charles Collier</td>
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University Planned Giving professionals can help you develop gift plans for any part of the University, including the following Schools and Affiliates:

- Harvard College
- Graduate School of Arts and Sciences
- Business School
- School of Dental Medicine
- Graduate School of Design
- Divinity School
- Graduate School of Education
- School of Engineering and Applied Sciences
- Extension School
- Kennedy School
- Law School
- Medical School
- School of Public Health
- Radcliffe Institute for Advanced Study
- Arnold Arboretum
- Harvard Art Museum
- Memorial Church
- American Repertory Theatre
- Other Harvard Affiliates