

students going to and from class in the building's two auditoriums and seven seminar rooms. The ground level has teaching labs and a café that is scheduled to open in December. The second and third floors contain the Center for Brain Science, where neuroscientists will study

everything from memory to how young birds learn their fathers' songs. The top floor is devoted almost entirely to systems biology, a relatively young field that brings experimental and theoretical biology together. Altogether, more than 300 people, including about 30 faculty mem-

bers and their research groups, will work in the new facilities.

The most difficult part to build? That, says Pafumi, would be the floating staircase that connects the first floor to those above and rises from landing to landing without support pillars in between.

Endowment Edges Up in a Down Year

THE UNIVERSITY'S endowment increased by \$2.0 billion, or 5.7 percent, during the fiscal year ended June 30, according to the annual report by Harvard Management Company (HMC), released in early September. The new total of \$36.9 billion represents an 8.6 percent investment return on endowment assets after expenses and fees; plus endowment gifts received during the year; minus the distribution of \$1.6 billion in funds to support University operations and substantial capital outlays.

Jane L. Mendillo, HMC's president and chief executive officer since July 1, called

the results for fiscal year 2008 "very solid" in light of "pretty turbulent market conditions." She said that Robert S. Kaplan, who served as acting president and CEO from last November through June 30, had done a "fantastic job" of leading the organization during a time of senior management transition and very challenging financial circumstances. Kaplan, who has now joined HMC's board, cited the work of the "great team here" in the investment organization.

The 8.6 percent return on investments follows a stellar 23 percent return in the prior fiscal year (see "The Endowment: Up, and Upheaval," November-December 2007, page 64). That returns in fiscal year 2008 were less robust is hardly surprising. The endowment assets are diversified among many categories of investments (domestic, foreign, and emerging-market equities, private equities, commodities, real estate, various kinds of bonds, etc.), but HMC noted, as it does traditionally, that popular market measures such as Standard & Poor's 500 index (of large U.S. stocks) had declined 13.1 percent during the fiscal year, while the Lehman Aggregate Index (a broad proxy for the bond market) gained 7.1 percent.

In seven investment classes, HMC results exceeded those for the appropriate market benchmarks: domestic, emerging-market, and private equities; real assets (including all three subcategories of commodities, timber and agricultural land, and real estate); and domestic, foreign, and inflation-indexed bonds. In three classes, HMC performance fell short of market benchmarks: foreign equities, absolute-return funds, and high-yield assets. (See chart at left for returns by asset category. The University's annual financial report, released in late October and covered on page 68 of this issue, further details performance by class in its narrative on HMC.)

In the aggregate, HMC's 8.6 percent investment return exceeded its market benchmarks' 6.9 percent return, providing a "value-added" margin of investment performance of 170 basis points, worth some \$600 million-plus in extra endowment earnings. In fiscal year 2007, the value-added margin was 580 basis points, or \$1.7 billion of extra return. One significant drag on fiscal year 2008 results was the July 2007 collapse of Sowood Capital Management, previously reported, on which HMC recorded a loss of approximately \$350 million; the breakeven results for absolute-return investments in part reflect the Sowood liquidation. The median return of a group of large institutional investors, aggregated by the Trust Universe Comparison Service, was negative 4.4 percent. Peer universities whose investment strategies are similar to Harvard's in several respects also reported modestly positive returns, down sharply from their gains in the prior year: Yale, 4.5 percent (versus 28 percent in 2007); Stanford, 6.2 percent (versus 23.0 percent); MIT, 3.2 percent (versus 22.1 percent).

The star performers in HMC's portfolio were the three components of "real assets," which in the aggregate produced a 35.8 percent investment return for fiscal year 2008. Real assets comprise "liquid commodities" (oil and gas, agricultural goods, metals, and so on), which soared in value during the year, driven by strong demand from developing nations and from investors' perception of rising inflation; timber and agricultural land, an inflation hedge for which values fluctuate on a different cycle, but where results significantly exceeded market benchmarks; and real estate, both commercial (offices, warehouses, retail facilities, and so on) and residential (apartment and condominium buildings, for instance)—

Fiscal Year 2008 Performance
(in percent)

	Harvard Return	Market Benchmark
Domestic equity	-12.7%	-13.1%
Foreign equity	-12.1	-11.1
Emerging-market equity	7.6	4.8
Private equity	9.3	6.3
Absolute return	0.1	1.8
High-yield	-8.3	0.7
Real assets	35.8	33.0
Domestic bonds	16.1	12.7
Foreign bonds	21.3	18.5
Inflation-indexed bonds	20.3	16.3
Total	8.6%	6.9%