where results in the recent fiscal year were slightly positive and ahead of market returns. As might be expected, all of the fixed-income asset classes performed strongly during the year. In total, the real assets account for about one-quarter of endowment holdings, and the bond portfolios another 15 percent; the gains there offset the negative returns in the large domestic and foreign public equity portfolios—about one-third of total assets.

In their written narrative on the year's results, Kaplan and Mendillo cited "periods of intense market turmoil highlighted by liquidity disruptions, severe dislocations in various financial markets (examples include residential mortgages, commercial paper, consumer loan markets, leveraged loan markets, and municipal auction rate preferred markets), and emergency policy responses." (Those "responses" ranged from sharp cuts in U.S. interest rates by the Federal Reserve Board to the supervised takeover of the Bear Stearns investment bank, the government assumption of control over the Fannie Mae and Freddie Mac housing-finance enterprises, the demise of Lehman Brothers, the takeover of Merrill Lynch, and more.)

The result, Kaplan and Mendillo wrote, was "the early to middle stages of a fundamental financial market de-leveraging"—as banks, other institutions, and investors shed assets and pared down debt, often leading to the distressed sale of assets, sharp volatility in investment markets, and unusual movements in the prices of commodities such as oil, all prompting concerns about slower economic growth and, simultaneously, rising inflation worldwide. In the immediate future, they wrote, "[W]e expect to see a continuation of the process of financial market de-leveraging. This process will likely create periods of disruption and market volatility."

In this context, HMC did not itself need internal instability. The sudden resignation of its president and CEO Mohamed El-Erian in the fall of 2007 (see "An Unexpected Risk Factor," November-December 2007, page 64) raised the specter of just such disruptions, as he had recently put in place a new operating structure and the personnel—several of them new

## HARVARD PORTRAIT

## Tarun Khanna

**"A million mutinies now"** was V. S. Naipaul's 1990 description of the social upheaval then rocking India. "Lurking in that idea," says Lemann professor Tarun Khanna, Ph.D. '93, a native of New Delhi, "are a million entrepreneurial ventures, because an entrepreneur is somebody who is exercising productive mutiny against some status quo." After earning his doctorate in a joint program offered by the economics department and Harvard Business School, which hired him the same year, Khanna staged a mutiny of his own: he shifted his emphasis from hard numbers to the delicate art of integrating Western business models into emerging markets. "I was becoming conscious of the desire to do something for my country of origin and in general for poor countries," he says. But, as he realized in conversation with his former HBS colleague Yasheng Huang '85, Ph.D. '91, nations develop in wildly different ways. Their class on how China's state-controlled growth differs from India's democratic scramble for wealth became a 2003 *Foreign Policy* article. The provocative title ("Can India Overtake China?") and answer (perhaps!) sparked heated reactions, he says: that it made "a huge amount of sense" or was "completely absurd." Those who "were not observers of [India] found it surprising because it didn't mesh with their image." Today, Khanna sees the status quo changing at his children's school, where students study China and listen to Indian music. At Harvard, he serves on the South Asia Initiative's steering committee (see "Global Gains," January-February, page 64), bringing Asia to the University even as he sends business ideas to his old home.

*Photograph by Harry Stuart Cahill*