

# HARVARD UNIVERSITY

OFFICE OF THE PRESIDENT

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(617) 495-1502

February 25, 2008

The Honorable Max Baucus  
Chairman, Committee on Finance  
United States Senate  
511 Hart Senate Office Building  
Washington, DC 20510

The Honorable Charles Grassley  
Ranking Member, Committee on Finance  
United States Senate  
135 Hart Senate Office Building  
Washington, DC 20510

Dear Senator Baucus and Senator Grassley:

I am enclosing a set of responses, prepared by colleagues here, to the questions you recently posed to Harvard and other colleges and universities. I hope the responses will be helpful in enabling a fuller understanding of such matters as the nature of our endowment funds, the scale and scope of our academic enterprise, our investments in student access and affordability, and our efforts to use our resources to sustain educational and research programs of the highest quality over the long term.

Your letter conveys a special concern for college costs. Harvard has aimed, over decades and especially in the past few years, to open our doors increasingly wide to outstanding undergraduates from diverse economic backgrounds. The financial aid initiative we announced last December is the latest in a long series of actions meant to ensure that Harvard College is within the financial reach of students of talent and promise, whatever their families' means.

The initiative is just one example of our broader commitment to using our endowment and other resources to advance our essential mission – educating future leaders across a range of fields and creating new knowledge and ideas in the service of society. America's colleges and universities are in the forefront of higher education, discovery, and innovation worldwide because of a shared commitment over many decades – among the federal government, state governments, donors, alumni, foundations, parents, and students – to the highest quality of teaching and research, combined with a commitment to broad access. This combination of excellence and opportunity is a distinctive feature of the American system of higher education, and it has been maintained over decades through a careful balancing of the needs

of the current generation of students against the preservation of sufficient resources for generations to come.

I hope the enclosed document will provide useful information in areas of strong mutual interest. Please feel free to be in touch with me, or with Suzanne Day, Harvard's federal relations officer in Washington (202-863-1292), if we can be helpful in clarifying answers or providing further information.

With all best wishes,

A handwritten signature in black ink, reading "Drew Gilpin Faust". The signature is written in a cursive, flowing style.

Drew Gilpin Faust

Cc: The Honorable Edward M. Kennedy  
The Honorable John Kerry

## MEMORANDUM

**To:** The Honorable Max Baucus, Chairman  
The Honorable Charles Grassley, Ranking Member  
Committee on Finance, United States Senate

**From:** Kevin Casey and Suzanne Day, Office of Government,  
Community, and Public Affairs, on behalf of Harvard University

**Re:** Request for Information on Endowment and Affordability

**Date:** February 25, 2008

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This document was prepared in consultation with the following offices of Harvard University: Office of the President and Provost; Office of the Vice President for Finance and Chief Financial Officer; Office of Institutional Research; Office of the Vice President and General Counsel; Office of the Secretary to the University; Office of Vice President for Government, Community, and Public Affairs; and the Harvard Management Company.

**1) Please provide the number of undergraduate and graduate students year-by-year for the last ten years.**

### *Harvard University Enrollments*

Harvard University has close to 40 degree programs and enrolls nearly 20,000 undergraduate and graduate students in its many schools and faculties, which include the Faculty of Arts and Sciences (consisting of Harvard College, the Graduate School of Arts and Sciences, and the School of Engineering and Applied Sciences), the Harvard Business School, the Harvard School of Dental Medicine, the Harvard Graduate School of Design, the Harvard Divinity School, the Harvard Graduate School of Education, the Harvard Kennedy School of Government, the Harvard Law School, the Harvard Medical School, and the Harvard School of Public Health. Since 1909, Harvard has also provided academic programs to students in the local community through the Harvard Extension School.

Of these nearly 20,000 degree-seeking students, slightly over 18,000 study full-time at Harvard University and 6,648 of them are enrolled as full-time undergraduates in Harvard College. College enrollments have remained fairly stable over the last decade, while our graduate, professional, and extension school enrollments have increased 12% between 1999 and 2008 (see Table 1 in the Appendix). Financial aid policies and programs vary by school and program, taking into account the types of degrees offered, the students at the school, and their career plans. The discussion below focuses on the College program, which is the largest at the University.

**2) Please provide the total cost of undergraduate tuition (including all fees) – both sticker and average, mean, and median – year-by-year for the last ten years. Please**

**provide the amount of tuition assistance (not including loans or work-study) that the university has provided to undergraduate students year-by-year for the last ten years. Please provide the average grant amount. Average grant amount for most recent year available (2006-2007). For the most recent year, please provide the percentage of students receiving university grants (for example 25%, 50%, 75%, and 100% of tuition and fees).**

In response to Questions 2 and 3, we have provided both a narrative (following Question 3) and detailed historical data tables (see Appendix to this document).

**3) Please explain your university's financial aid policy. How do you inform students and parents of that policy? What outreach efforts does your university take to recruit potential low-income students? How is low income defined? What is the amount spent on these efforts?**

*Harvard College's Financial Aid Policy*

It has long been Harvard College's policy to admit students without regard for their financial means and to meet the full, demonstrated need of all admitted students through a combination of institutional, federal, state, and outside aid. All institutional aid for our undergraduates is need-based, and 63% of our scholarship program is endowed by over 1500 funds donated over decades by alumni and friends. Additionally, we have launched a number of initiatives in the past four years aimed at keeping the cost of a Harvard education affordable for all talented students regardless of family income. In 2004, we eliminated the expected parent contributions for families with incomes below \$40,000 and just two years later increased that income threshold to \$60,000.

Continuing Harvard's commitment to affordable education, President Drew G. Faust this past December announced a sweeping overhaul of our undergraduate financial aid program to take effect in the 2008-09 academic year. Focusing on enhancing grant aid for students and families from the middle and upper-middle incomes, the new "zero to 10 percent standard" asks families making between \$60,000 and \$120,000 to contribute on a sliding scale that starts at zero and reaches approximately \$12,000. In addition, families making between \$120,000 and \$180,000 with normal assets can expect to pay approximately 10% of their income. For example, a family with income of \$180,000 will pay approximately \$18,000 under the new program, compared with more than \$30,000 today. We are also eliminating loans and replacing them with grants in all student awards, and will not include home equity in our assessment of a family's ability to contribute to educational costs.

The details of our financial aid policy are included on our website (<http://www.fao.fas.harvard.edu>) and in our admissions application view book. Additionally, we travel jointly with peer institutions to over 120 cities annually to get the message out about Harvard and higher education and the many sources of financial aid available. As a part of our admissions recruitment, we conduct evening programs for

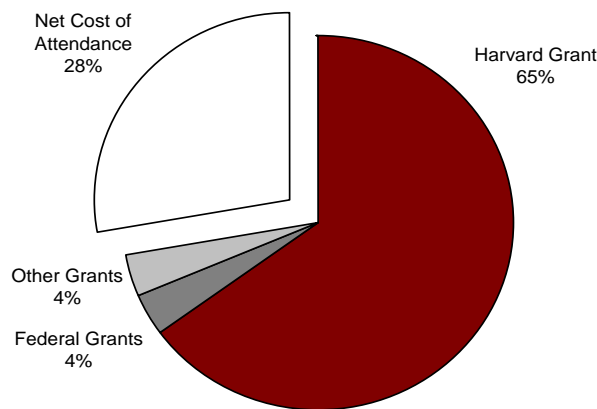
students, parents, and guidance counselors in which our financial aid policy is explained and featured in a slide show.

Beyond the work of our dedicated admissions staff, over the past several years improving affordability and access has been a major priority of Harvard's leadership, including our president, deans, and members of the governing boards. University leaders have met with current students, parents, alumni, donors, and our peer institutions in forums at Harvard and across the country in an effort to better inform families of their options and to encourage talented low- and middle-income students to apply. In addition, Harvard has engaged heavily with print and broadcast media at local, national, and international levels in an attempt to ensure that our policies and initiatives are made known to the widest possible audience.

*The Cost of Attendance, Role of Financial Aid, and Net Cost*

This year the cost of attendance (COA) for Harvard College – consisting of tuition, room, board, and mandatory fees – is \$45,620.<sup>1</sup> However, 51% of Harvard College students receive institutional scholarship aid and pay only a fraction of this cost. The average grant for students on financial aid is \$32,989, consisting of \$29,635 from institutional sources, \$1,635 from federal sources, \$214 from state sources, and \$1,505 from private sources. The resulting average net cost of attendance paid by families receiving financial aid is \$12,631.<sup>2</sup> As depicted in the chart below, the cost to such families is only 28% of the total cost, while institutional grants cover 65% of the total.

**Graph 1: Net Cost of Attendance for Harvard College Students on Financial Aid in FY2008 (COA=100%)<sup>3</sup>**



Between 1998-99 and 2007-08, the total cost of attendance or “sticker price” of Harvard College increased from \$31,132 to \$45,620, representing a 4% compounded annual

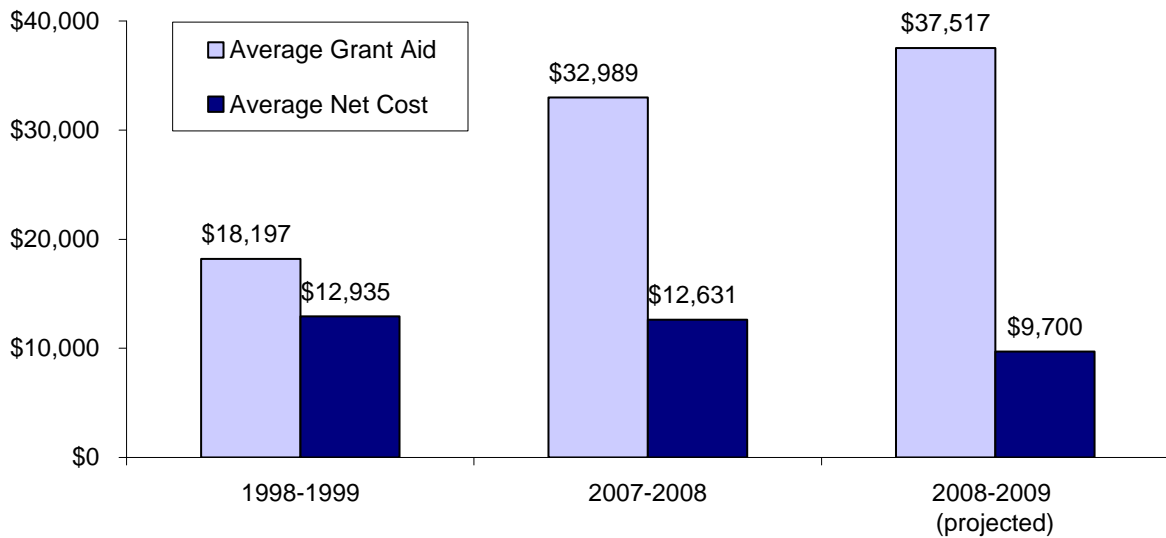
<sup>1</sup> Harvard College is overwhelmingly residential with over 98% of students living on campus, so in this discussion we include room, board, and fees, not just tuition, as the most appropriate representation of Harvard's costs.

<sup>2</sup> We define net cost of attendance as the cost of attendance minus grant aid.

<sup>3</sup> Percentages do not sum to 100% due to rounding.

growth rate. Meanwhile, the average student grant increased by 7% per year, from \$18,197 to \$32,989. The rapid growth in the average grant has been achieved by doubling the undergraduate institutional grant budget from approximately \$50 million in 1999 to more than \$100 million today. As a result of this increase in grant aid, the average net cost for students on financial aid has declined in both real and nominal terms during the last ten years. Graph 2 illustrates the change in the average grant and net cost between 1999 and 2008 and shows a projection of the average grant and net cost for 2009, after the implementation of Harvard's new financial aid initiatives. (See Appendix Tables 2, 3, and 4 for historical data on tuition and financial aid.)

**Graph 2: Change in Grant Aid and Net Cost for Students Receiving Financial Aid, 1999, 2008, and 2009 (Nominal \$'s)**

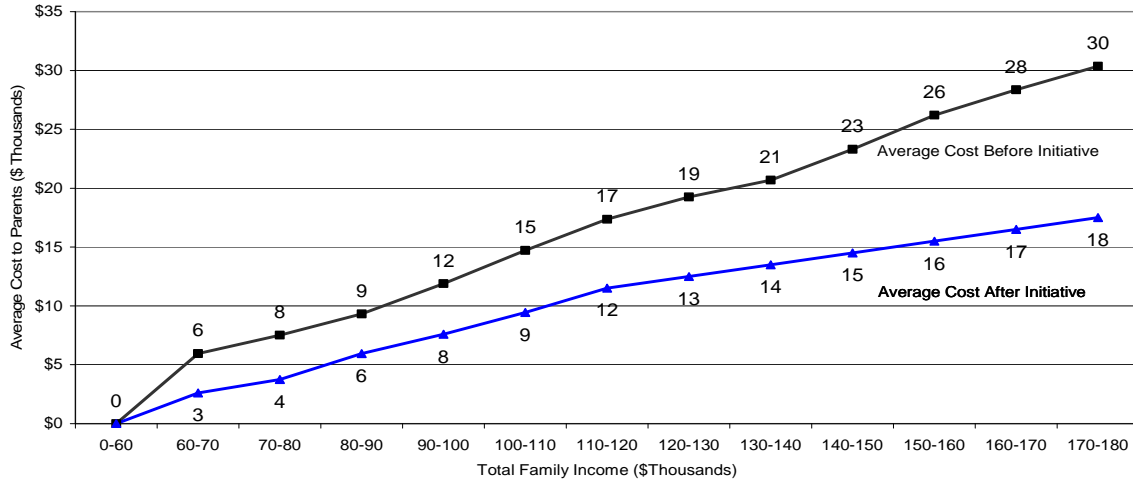


With the new financial aid initiatives for low- and middle- income families discussed previously, the average cost that aided families will pay is expected to drop from \$12,631 this year to approximately \$9,700 next year.<sup>4</sup> While parents making \$60,000 or less will continue to pay nothing to send their children to Harvard, under the “zero to 10% standard,” parents with incomes between \$60,000 and \$180,000 are projected to see their contributions decline by a third to a half of what they are today (Graph 3). Also, under this initiative, parents in this income range will pay at least 50% less than the expected contribution calculated using the federal methodology for determining eligibility for federal student aid as seen in Graph 4 below.

<sup>4</sup> Family contributions include parent contributions and student contributions.

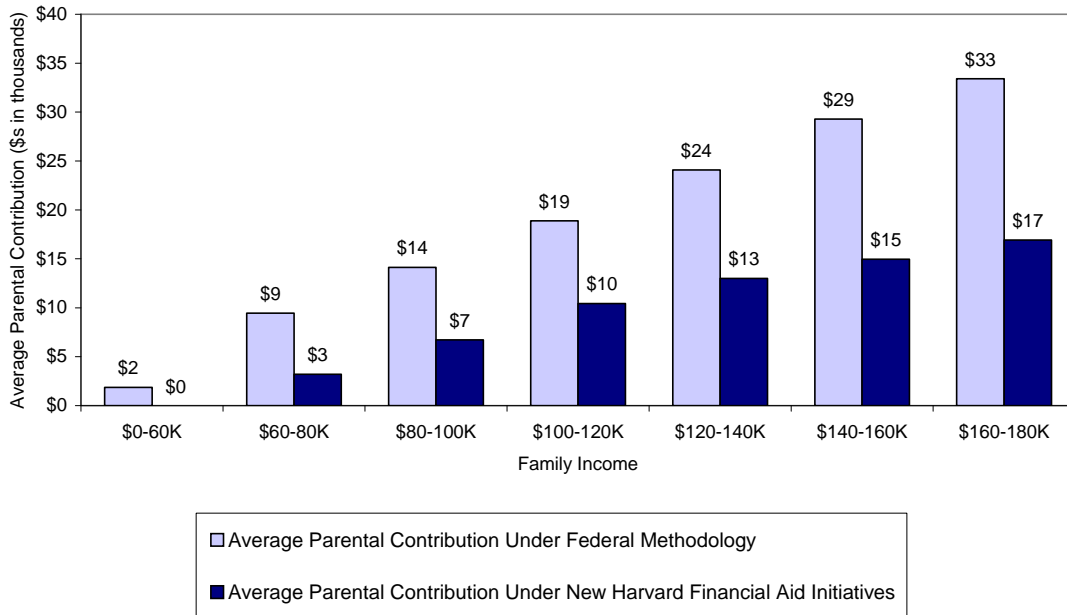
### Graph 3: Zero to Ten Percent Standard

Projected Cost to Parents For Families with Incomes Between \$0-\$180,000 Before and After Initiative



### Graph 4: Differences in Parental Contribution

Parental Contribution by Family Income Under Federal Methodology and Under New Harvard Financial Aid Initiatives



In addition to reducing the costs faced by parents, our ongoing financial aid efforts have sought to reduce the debt burden faced by students upon graduation. All students on financial aid are expected to contribute a small amount (approximately \$2,850 during the

academic year for the class entering in 2008) toward their education. This obligation, known as “self-help,” is typically met through a combination of work-study and loans, and summer work during the course of the year. Past financial aid initiatives have already reduced debt burdens to well below national levels. While the class of 1999 had 964 borrowers with a median debt of \$16,445, the Class of 2007 had just 759 borrowers with a median debt of \$6,766. The national median debt upon graduation is \$19,500 for private institutions and \$15,500 for public universities. Beginning in 2008, we will eliminate the need for students to take out loans by providing an additional \$1,000 grant to each student, which will further reduce or eliminate the debt that students face upon graduation.<sup>5</sup>

### *Outreach to Low-Income Students*

Harvard’s current outreach efforts are multifaceted and are designed to be responsive to the enormous demand by the general public for information. In February of 2004, when President Lawrence H. Summers announced Harvard’s Financial Aid Initiative (HFAI) to encourage talented students from low-income families to attend Harvard, he also announced the following:

- an intensified recruitment outreach strategy;
- a consideration in admissions of applicants who have remarkable accomplishments despite limited resources at home or in their local schools and communities; and
- the creation of our Crimson Summer Academy, an intensive summer program for academically talented high school students from financially disadvantaged backgrounds in the greater Boston area.

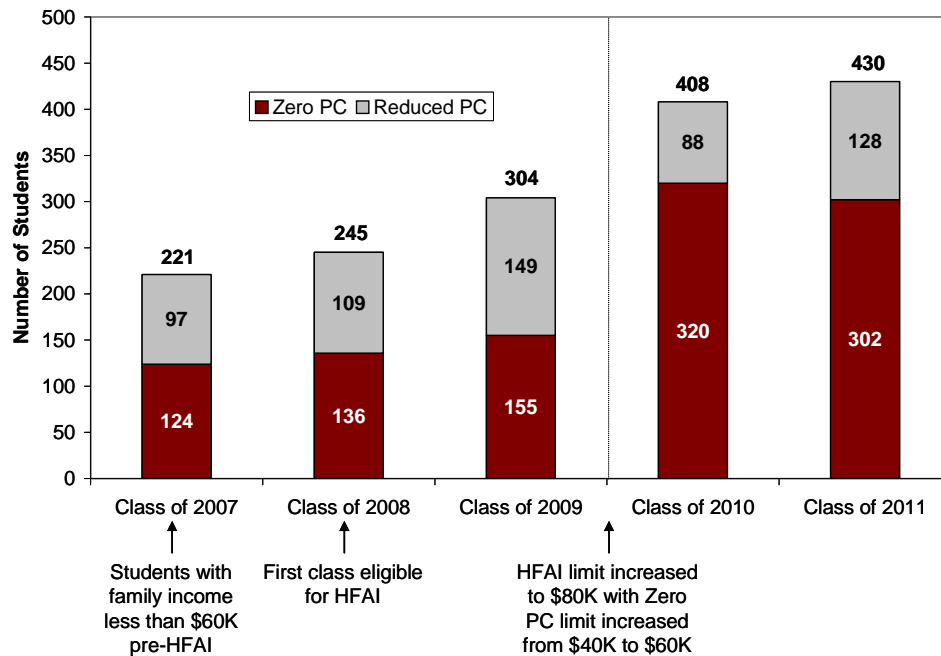
Four years later, the number of students from low-income families in our freshman class has increased by more than a third in our freshman class (Graph 5).

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<sup>5</sup> Although students will not be required to take out loans to meet their obligations, students may still wish to take out loans to help to cover other costs such as computers.

### Graph 5: Growth in low-income students after HFAI

The number of students in each incoming class who qualified for HFAI



*Specific outreach efforts include:*

- Mailing more than 80,000 “search letters” annually to students whose college application test scores indicate strong academic preparation, with special focus on areas of the country that have been identified as low-income by geodemographic research that links socioeconomic data to geographic markers such as ZIP codes, blocks, and streets. Search efforts continue with emails, in-person contacts, student calls, and admissions visits to areas with high concentrations of targeted students.
- Visiting high schools and communities in areas with high concentrations of low-income students, including urban and rural areas. For example, last fall Harvard’s admissions office added several additional trips to visit communities with higher concentrations of families likely to qualify for Harvard’s aid initiatives, including Parkersburg, West Virginia; Prince George’s County, Maryland; Detroit, Michigan; and Anaheim, California.
- Hiring undergraduate students, mostly students benefiting from the low-income financial aid initiative, to serve as a team to answer the large volume of inquiries about the initiative from prospective candidates and community outreach organizations. These students also assist in our recruitment by traveling to their home communities to visit high schools and middle schools to talk not only about

Harvard College, but also about the value of a college education in general. For instance, a Harvard student from the Fort Peck Reservation in Montana visited her high school, Poplar High School, as a part of our outreach efforts; likewise, a Harvard student from Davenport, Iowa, traveled to his former school, Davenport High School, as part of our recruitment team.

- Identifying organizations and schools that work with low-income, high-achieving student populations and inviting those groups to visit campus. Our student coordinators and admissions officers provide a customized information session stressing the importance of higher education and the availability of financial aid, and give a tour of the campus. These visits are an opportunity to spend time with prospective students, so they can learn firsthand about the impact of Harvard's student aid.
- Paying for transportation to campus for admitted students from low-income backgrounds to make it possible for them to attend the Visiting Program held each spring, allowing them to meet their peers and experience campus firsthand.
- Offering students an application fee waiver. One in five applicants to Harvard does not pay an application fee.

In 2006-07, we spent over \$1.4 million on these specific outreach efforts and the Crimson Summer Academy. We anticipate spending nearly \$1.8 million with increased recruitment travel and outreach efforts in 2007-08.

#### *Aid for Graduate and Professional Students*

In addition to the funds provided for undergraduate financial aid, Harvard spends more than \$200 million a year on aid for students and fellows at our graduate, professional and extension schools. Harvard is working to increase support for doctoral and master's students, with a particular focus on grants for students interested in pursuing public service careers. Harvard's aim is to allow graduates to follow careers based on interest, impact, and value to society, unimpeded by educational debt. To this end, four Harvard schools – including the Business School, the Law School, the Kennedy School, and the Medical School – have loan forgiveness programs for students in jobs or careers below certain income levels, in addition to providing more traditional grant aid. These programs provided over \$3.2 million toward loan repayment in 2007.

**4) Who determines and decides when tuition increases are necessary? What is the process for making this decision? Does the full Board of Trustees vote on tuition increases? Are students, parents, and the public provided an opportunity to comment tuition increases prior to final decisions being made? What role does your university endowment play in providing financial assistance to students?**

*The Annual Tuition Process*

Tuition proposals are developed on an annual basis by each of Harvard's schools, and, after review within the University's central administration, are submitted for consideration and approval to the President and Fellows of Harvard College ("the Corporation"), which serves as the University's executive governing board. (See response to Question 5 for description of Harvard's governance structure.)

In the fall, Harvard's central budget office asks each of Harvard's schools and faculties to report back with recommended tuition rates for the coming academic year. Each school is required to provide information and multiyear projections focused on three inter-related issues: tuition, enrollments, and financial aid. After review by the central budget office and potential additional refinement from the schools, the various proposals regarding tuition and financial aid are reviewed and approved by the Harvard Corporation. In certain cases, the Corporation approves a range in which tuition may be set as budgets are refined in the spring.

To assist schools in developing their tuition proposals, the central budget office outlines factors to consider. In recent years, these considerations have focused on slowing increases in the net cost of attendance, increasing the use of strategic endowment payouts for financial aid, and overall, more broadly considering the impact of both sticker price and financial aid on questions of access and affordability.

*Public Comment*

As an independent institution of higher education, Harvard sets and announces its tuition rates without prior public consultation, based on the factors noted above. Public hearings and outreach do not precede the announcement of our annual tuition rates, though we conduct a great deal of outreach, as noted above, to make sure that the education we provide is accessible and affordable to students from a wide range of backgrounds. Following an anti-trust action against Ivy League universities and MIT brought by the Justice Department in the early 1990s, and settled in 1993, independent institutions of higher education have been directed to make tuition decisions individually, without consultation with other institutions of higher education.

*Endowment and Financial Aid*

As detailed separately in response to questions on financial aid policies and endowment expenditures, more than one fifth of Harvard's annual endowment expenditures goes to cover financial aid, and we have used strong endowment returns in recent years to increase financial aid at each of Harvard's schools.

**5) Please explain how your university's endowment is managed and the role of the Board of Directors? What are your university's endowment payout and investment policies? What is the mission of your university's endowment? When was the last**

**time that the university's endowment policy was reviewed? When will it next be reviewed?**

Harvard's endowment, as of June 30, 2007, was \$34.9 billion. Made up of over 11,000 different funds, the endowment is managed by Harvard Management Company (HMC), a wholly owned subsidiary of the University. The vast majority of the endowment is dedicated to support one or another of Harvard's various faculties, with the four largest schools accounting for approximately 71% as of June 30, 2007. Of this total, the Faculty of Arts and Sciences (including Harvard College, the Graduate School of Arts and Sciences, and the School of Engineering and Applied Sciences) constitutes 46%, the Harvard Medical School constitutes 12%, the Harvard Business School constitutes 8%, the Harvard Law School constitutes 5%.

As is the case for all charitable institutions, Harvard has the legal obligation to comply with all restrictions imposed by donors on endowments. Such restrictions take a variety of forms, such as limiting the use of endowment funds to particular lines of research, fellowships, specific student activities, study abroad, acquisitions of books, or teaching in particular subject areas. All endowments are held in public trust, which means that Harvard's state of incorporation (Massachusetts) exercises the authority for monitoring and enforcing endowment restrictions to ensure that Harvard administers and spends endowment funds in the way in which it is required.

*Governance*

As noted in response to Question 4, the President and Fellows of Harvard College, also known as the Harvard Corporation, serves as the University's executive governing board. The University also has a Board of Overseers, whose members (other than the University's President and Treasurer) are elected by the alumni of the University. The Corporation exercises the principal fiduciary role regarding the affairs of the University. Among other things, the Corporation is responsible for electing members of the board of directors that serves as the governing body of the Harvard Management Company. In addition to serving on both the Corporation and the Board of Overseers, the University President and Treasurer are ex officio members of HMC's board of directors; the Treasurer has traditionally served as the chair of the HMC board. The HMC board's other members (except for the University's Vice President for Finance and the HMC President, who both serve ex officio) are elected to four-year staggered terms by the Corporation, taking into account their expertise, experience, and effectiveness.

The HMC board meets quarterly as a group. It also operates through five standing committees: the compensation committee, the finance committee, the investment advisory committee, the nominating/corporate governance committee, and the valuation and benchmark committee. Members and chairs of each committee are appointed by the chair of the HMC board and serve until their successors are appointed.

*Endowment Payout and Investment Policies*

Harvard targets an endowment payout rate of approximately 5%. The targeted rate is a function of the University's expectations for long-run market returns adjusted for inflation, and has as an objective achieving a balance between preserving the endowment's purchasing power over time and supporting the costs of educating the current generation of students. While the targeted payout rate is a key metric in University planning, maintaining the stability of operating budgets and planning for important University-wide strategic initiatives are also important drivers in determining the University's endowment payout policies.

HMC's investment policy has a long-term asset allocation governed by a "neutral mix" (known as the "Policy Portfolio") that is consistent with the University's long-term investment horizon and risk tolerance. This mix is subject to annual review and approval by the HMC board. HMC seeks to add value over and beyond the returns associated with the neutral mix. To this end, it employs active strategies, drawing on both internal and external portfolio management expertise as appropriate.

*Endowment Policy Review*

As noted, the HMC board regularly reviews the policy that guides asset allocation and approves that policy annually. The Corporation, as part of its fiduciary responsibility for the University as a whole, regularly receives reports on HMC matters from the University Treasurer, and/or the president of HMC, and from time to time it reviews the target payout rate. Each year the Corporation sets the planned payout from the endowment for the following fiscal year, and each year it also reviews and approves requested special distributions (sometimes known as "decapitalizations") from the endowment for purposes consistent with relevant gift terms.

*Endowment Mission*

The primary mission of the endowment is to support the University's teaching and research mission. Harvard has been fortunate since its founding to have had a strong base of donors, alumni, and foundations that have financially supported the work of Harvard with gifts to the endowment – some unrestricted, but most to support specific scholarly activities within the University. With approximately 20,000 students, 16,000 employees (making Harvard one of the largest employers in Massachusetts), over 600 buildings to maintain (covering 23.5 million square feet), and one of the largest research libraries in the world, the University is significant in its scope, impact, and obligations. In academic disciplines, Harvard ranks among the best in fields as diverse as classics and nanotechnology.

As is the case at other large research universities, tuition and research grants alone are insufficient to cover the costs associated with educating Harvard's students and funding the University's research enterprises. Harvard's endowment plays an increasingly significant role in bridging these funding gaps. By supplementing federal research

dollars with endowment income, Harvard is part of a true partnership between the federal government and universities in preserving the nation's strong research enterprise. Over the past decade, the University's endowment has become increasingly significant in supporting the University's mission, with distributed endowment income increasing as a percentage of total operating revenues from 21% in 1997 to 33% in 2007.

**6) Please provide the year-by-year net growth of the university's endowment for the last ten years (in both percentage and dollars). What is the amount of donations the endowment has received year-by-year for the last ten years? Please provide the percentage of investment in each asset class (equity, fixed income, hedge funds, private equity, venture capital, etc.) and the amount invested outside the United States.**

*Net Growth and Gifts over the Past Ten Years*

(\$ in millions)

Fiscal Year	Endowment	Net <sup>1</sup> Endowment Growth over		Gifts for Endowment
		Prior Year		
		\$	%	
2007	\$34,912	\$5,693	19.5%	\$278
2006	\$29,219	\$3,366	13.0%	\$273
2005	\$25,853	\$3,266	14.5%	\$286
2004	\$22,587	\$3,293	17.1%	\$258
2003	\$19,295	\$1,777	10.1%	\$262
2002	\$17,518	(\$741)	-4.1%	\$207
2001	\$18,259	(\$889)	-4.6%	\$290
2000	\$19,148	\$4,393	29.8%	\$241
1999	\$14,756	\$1,477	11.1%	\$246
1998	\$13,279	\$2,117	19.0%	\$187

Source: Harvard Annual Financial Reports

1 Net of annual endowment distribution for University operations.

*Endowment Composition by Asset Class*

Endowment Composition by Asset Class		June 30, 2007	
		\$ millions	% of Total
Equities:			
	Domestic equities	\$6,225	17.8%
	Developed foreign equities	\$5,082	14.6%
	Emerging market equities	\$3,936	11.3%
	Private equities	\$3,560	10.2%
Total equities		\$18,803	53.9%
Fixed-income:			
	Domestic bonds	\$2,308	6.6%
	Foreign bonds	\$1,157	3.3%
	High-yield bonds	\$549	1.6%
Total fixed-income		\$4,014	11.5%
Real assets:			
	Commodities	\$4,904	14.0%
	Real estate	\$2,332	6.7%
	Inflation-indexed bonds	\$2,295	6.6%
Total real assets		\$9,531	27.3%
Absolute return and special situations		\$4,337	12.4%
Cash		(\$1,774)	-5.1%
<b>Total</b>		<b>\$34,912</b>	<b>100.0%</b>

Source: Harvard Annual Financial Report FY 2007

**7) Please explain how you determine what is considered part of the university endowment. In other words, how is your endowment defined? Are there any other long-term investments that are not included in the endowment as reported to NACUBO? If so, what are they and what are their values?**

The University's endowment consists of gifts directed to be invested in the endowment; funds functioning as endowment, which are essentially funds that the University designates to be invested in the endowment and whose spending requires the approval of the Corporation; pledges of gifts to the endowment; and interests in trusts held by others, which are designated by the donor for the endowment. The value of the endowment changes each year by appreciation or depreciation, new gifts, funds distributed to the schools and departments for operations, and use of additional appreciation for specific purposes approved by the Corporation.

In addition to the University's endowment funds, HMC manages certain other University funds in its general investment account. These funds include the University's working capital (needed to support Harvard's \$3 billion of annual operations), pension funds, and split interest trust agreements. In aggregate, the endowment makes up approximately 85% of the general investment account, which totaled \$40.8 billion, as of June 30, 2007.

**8) What has been the cost of management of the endowment year-by-year for the last ten years?**

HMC operates a hybrid investment model, using both internal and external managers. The hybrid model is unique to Harvard and results in lower management fees than would be the case with a 100% externally managed portfolio.

Over the last ten years, the management costs for our internally managed endowment funds have been below 1% of assets under management. Annual aggregate internal and external management costs have averaged 1%–2% of assets under management.

**9) What was the payout (both in dollars and percentage) from the endowment year-by-year for the last ten years? What is the targeted payout (in percentage) from the endowment year-by-year for the last ten years? If either the actual and/or targeted payout is below 5%, please explain how this meets the needs of the current student body. If there is a material variation between actual and targeted, please explain. What were the top 10 major expenditures from the endowment last year?**

*Historical Endowment Payout*

The table below shows payout in dollars and percentages over the past decade. Endowment income distributed for operations is Harvard's largest income source and, as a share of revenues, has been steadily growing over the last decade.

(\$ in millions)

Fiscal Year	Prior Year Endowment Market Value	Endowment Income as % of Operating Revenues	Endowment Distribution		Endowment Payout Rate %
			\$	% Growth	
2008	\$34,912	--	--	--	--
2007	\$29,219	33%	\$1,309 *	23.1%	4.6% *
2006	\$25,853	31%	\$1,063 *	7.6%	4.2% *
2005	\$22,587	31%	\$988 *	8.1%	4.5% *
2004	\$19,295	31%	\$914 *	2.9%	4.9% *
2003	\$17,518	31%	\$888 *	6.5%	5.2% *
2002	\$18,259	32%	\$834	35.6%	4.8%
2001	\$19,148	28%	\$615	10.6%	3.3%
2000	\$14,756	27%	\$556	29.4%	4.0%
1999	\$13,279	24%	\$430	8.9%	3.3%
1998	\$11,162	23%	\$394	--	3.7%

Source: Harvard Annual Financial Reports

\*Includes approved incremental distribution of endowment for strategic University initiatives to extent allowed by specified endowment restrictions.

### *Payout Considerations*

In addition to standard annual distributions, which are set each fall for the following fiscal year, the University also considers incremental payouts during the fiscal year itself. Over the course of each year, University leadership monitors investment returns, funding needs, and projected operating performance. If priority funding areas are agreed to by school leadership and the President and Provost, incremental payouts (often referred to as “strategic decapitalizations”) may be considered and brought to the Corporation for approval. The distributions and payout rates for 2003 through 2007, as shown in the table above, include these incremental payouts. In FY2007, including incremental payouts, the total endowment distribution was \$1.3 billion, resulting in a payout rate of 4.6%.

The payout percentage is one metric considered when setting the endowment distribution, but not the only one. It is also critical for an institution of Harvard’s size to ensure relatively stable, and increasing, endowment distributions, to allow for effective internal academic planning and budgeting. Ultimately, the University takes into account several factors (payout percentage, operating budget stability, and University strategic needs) as part of its ongoing review of endowment payout.

### *Targeted Payout*

The University targets an endowment payout rate of approximately 5%. As discussed in our response to Question 5, the University takes into consideration several factors as part of overall University planning. The targeted payout rate aims to balance current University needs while preserving the purchasing power of the endowment over time. Other critical planning considerations include budget stability and University strategic priorities.

### *Meeting Current Student Needs*

Since 2006, Harvard has spent more than \$1 billion per year from its endowment. Distributed endowment income represents 33% of Harvard’s total operating income, up from 21% ten years ago. Growth in endowment spending has allowed the University to focus financial resources on top strategic priorities. Some highlights include:

Financial aid: Since 1998, scholarships and student awards increased from \$125 million to \$339 million per year, reflecting a 12% compounded annual growth rate. This growth does not reflect Harvard College’s most recent financial aid initiative (this initiative is described in more detail in the response to Question 3 of this letter), which will add more than \$20 million a year to the College financial aid budget alone.

Tuition: The cost of educating students is significantly higher than the tuition fees that the University charges. Even students who pay full tuition for Harvard College are receiving a significant subsidy from the University for their education. The gap is funded with endowment support and current use fundraising.

Investment in facilities and infrastructure: Harvard maintains more than 600 buildings that total more than 23.5 million square feet. In FY1998, expenditures for facilities and infrastructure at Harvard were \$93 million. In FY2007, infrastructure expenditures were almost \$600 million. The growth in endowment distribution has allowed the University to invest hundreds of millions of dollars to improve the physical environment for today's students while enhancing the institution's research goals and long-term future. This investment has been in the form of routine renovation and renewal, as well as campus expansion. Over 40% of the University's capital expenditures in FY2007 were for renovation and renewal of existing infrastructure.

Recent construction projects include major, and much-needed, library renovations, the building of several large science research facilities, and an upcoming renovation of the University's art museums. In addition, the University has worked closely with the City of Cambridge to site and build two new graduate student housing facilities.

Harvard also continues its major long-term development of more than 200 acres of land in the Allston section of Boston. This land will enable the University to pursue groundbreaking interdisciplinary initiatives in a range of fields. For example, the first major building in Allston will be a life science complex that will bring together scientists from Harvard's science schools in a cutting-edge fashion to promote interdisciplinary collaborations. Emerging plans for the Allston campus contemplate student housing, relocation of certain graduate programs, new athletic facilities, and spaces for art and culture.

#### *Variation between Actual and Targeted Payout*

In setting payout levels, University leadership must consider many factors. First are the legal obligations inherent within any endowment. Current leaders are stewards and seek to safeguard the principal of the original gift, to grow that principal to protect its value against inflation, and to distribute funds to support the activities specified by the gift terms. In addition, University leaders look to balance long-term institutional priorities against the short-term needs of current University operations. These attempts to maintain inter-generational equity are complicated by the uncertain market conditions against which decisions must take place.

With these considerations in mind, there are two primary reasons for the variance between actual and targeted payout rates in recent years. The first relates to the timing of the setting of the payout rate for the upcoming fiscal year. The second relates to the planning process that we believe is essential to maintain financial discipline at the University.

Timing of the setting of the distribution: The endowment distribution for each fiscal year is set in the fall of the previous year, so that Harvard's academic units have a clear overall budget figure for the upcoming year. Within the goals of the target spending rate, a focus in these decisions is determining an actual distribution amount rather than a mathematical percentage. This provides certainty on the budget side. However, because the actual distribution amount is set before actual returns are known, the University uses a planning

assumption for endowment returns. Thus, when the distribution is finalized in the fall of the prior year, the implied payout rate is an estimate.

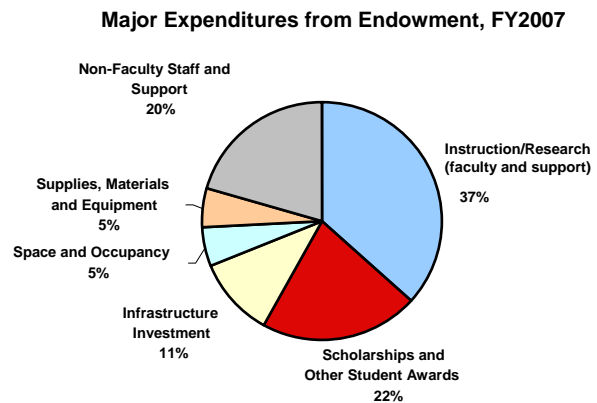
In any year when returns are significantly higher than planning assumptions, the payout rate for the following year will tend to be lower than was originally intended when the distribution amount was decided. Likewise, lower-than-predicted returns can drive payout percentages above the targeted rate.

The planning process and maintaining fiscal discipline: In setting distribution amounts and the payout rate, the Corporation recognizes the need for appropriate academic and financial planning within schools. This awareness is particularly critical because higher education is very labor-intensive; approximately 50% of our expenses consists of salaries and benefits for faculty and staff. Senior leadership works with all of Harvard's schools and faculties to plan for continued excellence over the long term, and predictable, growing distributions help protect against programmatic disruptions. In the long term, careful planning protects the institution and its students against potential and unnecessary cost increases. When endowment returns declined in the 1970s and, more recently, in 2001 and 2002, the University continued to increase the endowment distribution. The University does not believe that it is in Harvard's long-term interests to base structural operating decisions on short-term market fluctuations.

#### *Top Ten Expenditures from Endowment*

The categories of major expenditures from the endowment for FY2007 are shown in the pie chart to the right. These categories account for over 90% of endowment expenditures.

The ten categories aggregated and reflected in the pie chart include: undergraduate scholarships and awards, graduate scholarships and awards, other scholarships and awards, faculty salaries and benefits, faculty and instructional support, non-faculty salaries and benefits, investment in plant, space and occupancy, supplies, materials and equipment, and professional services.



**10) How much of the endowment is subject to permanent spending restrictions or limitations set by the original donor? Of the portion subject to permanent limitations, what percentage is restricted for need-based scholarships? What portion is restricted for undergraduate financial aid? Please provide the top five types of restrictions on the endowment by category. What percentage of the endowment is subject to significant limitations placed on it due to a decision by the board (or a subcommittee of the board) or a college or university official – such as a**

**set-aside for a specific program? Please provide the investment return to the endowment year-by-year for the last ten years.**

*Endowment Restrictions*

Of the \$34.9 billion in the endowment, 83% - almost \$30 billion - is restricted by the terms of original gifts. Only 17% of the endowment is unrestricted. Harvard has the legal obligation to comply with all use restrictions imposed by donors on endowments. Such restrictions encompass an array of activities, which limit the use of endowment funds to particular lines of research, fellowships, specific student activities, study abroad, acquisitions of books, and teaching in particular subject areas. All endowments are held in public trust, which means that Harvard's state of incorporation (Massachusetts) exercises the authority for monitoring and enforcing endowment restrictions to ensure that Harvard administers and spends endowment funds in the way in which it is required.

*Endowment Restrictions for Need-based Scholarships*

Since the focus of this question is undergraduate financial aid, the answers below relate only to the Faculty of Arts and Sciences (FAS), which is home to Harvard College, the Graduate School of Arts and Sciences, and the School of Engineering and Applied Sciences. The market value of the FAS portion of the endowment was \$15.8 billion as of June 30, 2007, of which \$13.2 billion is restricted. Endowments restricted to undergraduate financial aid in the FAS total \$2.4 billion (18% of FAS's restricted endowment). Since Harvard only awards financial aid to undergraduate students based solely on need, all of its \$2.4 billion restricted for undergraduate financial aid is used to support need-based aid.

*Top Five Restrictions for Endowment Funds*

Of the \$13.2 billion of restricted endowment in the FAS, the top five restrictions include: (i) support for professorships and faculty salaries (\$4.1 billion), (ii) undergraduate financial aid (\$2.4 billion), (iii) support for teaching and research programs (\$1.8 billion), (iv) Dean's discretionary funds (\$0.9 billion) - used to further support priorities such as financial aid, faculty compensation, and research programs that would otherwise be paid from unrestricted dollars, and (v) restricted endowments for library and museum collections, including book funds (\$0.8 billion).

*University-imposed Restrictions*

The University does not track, on an aggregated basis, self-restricted endowment dollars. All self-restricted endowment dollars are within the 17% of the endowment that is not subject to donor restrictions. The University classifies all self-restricted endowment dollars as unrestricted for financial reporting purposes.

### *Investment Return over the Past Ten Years*

While the endowment has experienced strong returns in the recent past, the University has also experienced losses within recent years, particularly in 2001 (when the endowment lost 2.7%) and 2002 (when it lost 0.5%). Historical endowment returns are provided in the table at right.

Fiscal Year	Investment Return
2007	23.0%
2006	16.7%
2005	19.2%
2004	21.1%
2003	12.5%
2002	-0.5%
2001	-2.7%
2000	32.2%
1999	12.2%
1998	20.5%

Source: Harvard Annual Financial Reports

The endowment is managed to sustain the purchasing power of the original gifts while providing a reliable stream of income in good years and in bad. Over time, experience has shown that consistent returns of approximately 8-9% (based on expected endowment returns adjusted for inflation) are needed to support smooth spending and to cover increased costs due to inflation.

**11) Please explain the fee arrangement to investment advisors. How is the fee and compensation measured and determined? What is the process to review reasonableness of the fee and compensation and what comparables are used? Who reviews and approves the fee? Who pays the fee (the endowment, general funds)? Please explain what relationship, if any, exists between endowment size and/or growth and the compensation given to the college or university president and the endowment manager. Please list what endowment-related bonuses, if any, either the university president or the investment manager has received year-by-year for the last ten years.**

### *Investment Advisor Fees*

As discussed in our response to Question 8, Harvard's hybrid investment model has internal and external investment managers. Fees paid to internal investment managers are primarily based on performance relative to appropriate industry benchmarks. This is a model that the University adopted from the private sector. External investment managers are typically paid both a management fee and a performance fee. The management fee is based on assets under management and is typically calculated and paid quarterly in arrears. For both external and internal investment managers, performance fees are based on individual manager performance relative to appropriate industry benchmarks and are calculated and paid annually, if warranted.

### *Reviewing Reasonableness of Fees*

For externally managed funds – an assessment of applicable management fees is conducted in the initial investment due diligence phase based on both the investment universe/asset class(es) and style that the manager has targeted. Investments that are greater than 1% of the total General Investment Account (GIA) are reviewed and

approved by HMC's board of directors. For internally managed funds – performance fees are assessed based on market surveys conducted by third-party compensation consultants, market intelligence gleaned from external managers and consultation with HMC's compensation committee (a subcommittee of HMC's board of directors). Internal manager compensation is formally approved by HMC's full board of directors.

*Fee Review, Approval and Payment*

Externally managed fee invoices are reviewed and approved by HMC's senior management. Internally managed fees are reviewed and approved by HMC's board of directors. All fees are paid by the GIA.

*Compensation of University President and Endowment Manager*

There is no link between the annual investment returns on the endowment and the annual compensation of the President of Harvard.

A portion of the compensation paid to HMC internal investment managers may be in the form of performance-related fees and is determined based on performance relative to relevant benchmarks.

*Endowment-related Bonuses*

Compensation levels for the five highest-paid HMC employees, as well as the HMC CEO, are made public annually in HMC's IRS Form 990 filing. HMC investment managers have received average annual compensation over the last ten years of less than 1% of assets under management. As previously mentioned in response to Question 8, aggregate annual fees, including internal and external endowment management costs, have averaged 1% – 2% of assets under management.

### Appendix: Historical Data Tables

**Table 1: Enrollments of Degree-Seeking Students at Harvard University  
(Part and Full-Time Students)**

Academic Year	Undergraduate Enrollment at Harvard College	Graduate, Professional, and Extension School Enrollment	Total Degree-Seeking Student Enrollment
2007-2008	6,648	13,339	19,987
2006-2007	6,715	13,399	20,114
2005-2006	6,613	13,231	19,844
2004-2005	6,562	13,227	19,789
2003-2004	6,597	13,093	19,690
2002-2003	6,649	12,951	19,600
2001-2002	6,650	12,967	19,617
2000-2001	6,650	12,258	18,908
1999-2000	6,684	11,914	18,598
1998-1999	6,704	11,935	18,639

**Table 2: Undergraduate Cost of Attendance (\$ Nominal)**

Academic Year	Tuition	Health Services Fee	Room	Board	Student Services Fee	Total Undergraduate Cost of Attendance
2007-2008	\$31,456	\$1,426	\$5,856	\$4,766	\$2,116	\$45,620
2006-2007	\$30,275	\$1,390	\$5,328	\$4,618	\$2,044	\$43,655
2005-2006	\$28,752	\$1,370	\$5,148	\$4,430	\$1,975	\$41,675
2004-2005	\$27,448	\$1,264	\$4,974	\$4,286	\$1,908	\$39,880
2003-2004	\$26,066	\$1,142	\$4,706	\$4,162	\$1,852	\$37,928
2002-2003	\$24,630	\$1,020	\$4,461	\$4,041	\$1,798	\$35,950
2001-2002	\$23,457	\$816	\$4,331	\$3,919	\$1,746	\$34,269
2000-2001	\$22,694	\$745	\$4,190	\$3,792	\$1,689	\$33,110
1999-2000	\$22,054	\$711	\$4,072	\$3,685	\$1,642	\$32,164
1998-1999	\$21,342	\$686	\$3,940	\$3,574	\$1,590	\$31,132

**Table 3: Total Grant Aid at Harvard College (\$ Nominal) <sup>6</sup>**

Academic Year	Institutional Sources	Federal Sources (e.g. Pell, SEOG, Byrd)	Other Sources (e.g. state and private support)	Total Grants
2007-2008 (projected)	\$100,729,365	\$6,715,624	\$10,895,730	\$118,340,719
2006-2007	\$92,015,169	\$6,620,588	\$10,296,999	\$108,932,756
2005-2006	\$82,547,935	\$6,227,637	\$10,996,440	\$99,772,012
2004-2005	\$76,117,855	\$6,177,250	\$11,249,820	\$93,544,925
2003-2004	\$69,428,446	\$6,064,189	\$11,282,351	\$86,774,986
2002-2003	\$62,795,341	\$5,289,609	\$11,087,172	\$79,172,122
2001-2002	\$57,810,957	\$5,459,733	\$11,040,830	\$74,311,520
2000-2001	\$50,941,985	\$5,677,339	\$9,611,572	\$66,230,896
1999-2000	\$50,988,633	\$5,663,631	\$8,731,110	\$65,383,374
1998-1999	\$49,818,574	\$4,555,520	\$8,804,140	\$63,178,234
% Change 1999-2008	102%	47%	24%	87%

**Table 4: Average Grant Aid and Average Net Cost of Attendance for Financial Aid Students at Harvard College (\$ Nominal)**

Academic Year	Undergraduate Cost of Attendance	Average Grant Aid Award from All Sources for Students on Financial Aid	Average Net Cost for Students on Financial Aid
2007-2008	\$45,620	\$32,989	\$12,631
2006-2007	\$43,655	\$30,533	\$13,122
2005-2006	\$41,675	\$28,162	\$13,513
2004-2005	\$39,880	\$26,244	\$13,636
2003-2004	\$37,928	\$24,364	\$13,564
2002-2003	\$35,950	\$22,979	\$12,971
2001-2002	\$34,269	\$21,547	\$12,722
2000-2001	\$33,110	\$19,228	\$13,882
1999-2000	\$32,164	\$18,561	\$13,603
1998-1999	\$31,132	\$18,197	\$12,935
% Change 1999-2008	47%	81%	-2%

<sup>6</sup> The *Federal Sources*, *Other Sources* and *Total Grants* columns of this table include merit awards received by students who did not demonstrate financial need and did not receive Harvard institutional grants.

**Table 5: Average Grant Received by Family Income Group  
(Academic Year 2007-08)**

Income Group	Number of Students	Average Grant	Average Net Cost (Cost of Attendance less Average Grant)	Percentage of Cost of Attendance Covered by Average Grant
\$0-60,000	1,107	\$45,019	\$601 <sup>7</sup>	99%
\$60,000 - 100,000	928	35,510	10,110	78%
\$100,000 - 140,000	693	26,314	19,306	58%
\$140,000 - 180,000	429	17,146	28,474	38%
\$180,000 +	242	15,500	30,120	34%

<sup>7</sup> The average net cost of attendance for students from families with less than \$60,000 income reflects the self-help contribution or voluntary loans (such as computer loans).