DIARY

Harvard Endowment Loses, Trails Peers

Harvard University, the world's wealthiest college, lost 0.05 percent on its investments in the 12 months through June, the second drop in four years, as the size of the endowment fell to \$30.7 billion.

The school failed to keep pace with peers such as the University of Pennsylvania and the Massachusetts Institute of Technology as it seeks to recover from a record loss of 27 percent in fiscal 2009. It also trailed benchmarks such as the Standard & Poor's 500 Index, which gained 5.5 percent in the same period, including reinvested dividends.

Jane Mendillo, the head of Harvard Management Co., which oversees the endowment, said the performance owed largely to the university's investments in publicly traded non-U.S. and emerging-market shares, which had losses of 11 percent and 17 percent for the year, respectively. She said Harvard "carries relatively more exposure" to these types of assets compared with other universities.

"Over the last few years, markets have become guite turbulent and managing through complexity has become one of our themes since the financial crisis of 2008," Mendillo, 54, wrote in a report released yesterday. "The 2012 fiscal year provided plenty of evidence that this theme remains relevant."

The size of the endowment fell by about \$1 billion from \$31.7

billion after accounting for the investment loss and transfers to the university to cover academic operating costs.

Mendillo, who first joined Harvard Management in 1987, has cut leverage and tried selling underperforming private-equity investments since she took over the fund in 2008 amid a meltdown in global financial markets. The endowment gained 11 percent in 2010 and 21 percent last year as markets recovered, and has a 20-year annual average return of 12 percent, putting it among the top performers, according to data compiled by Bloomberg.

While non-U.S. equities and emerging markets tumbled, Harvard's shares in U.S. companies topped the benchmark with a 9.7 percent gain; its real estate portfolio returned 7.9 percent. The university's natural-resource investments gained 2.4 percent. Mendillo has said she is seeking to expand direct investments in real assets such as tree farms in Brazil to capitalize on the growth of the middle class in emerging markets.

Harvard is among the first of the wealthiest universities to release investment results for fiscal 2012. Penn said it gained 1.6 percent in the year ended June 30 while MIT posted a return of 8 percent. Princeton University will probably report its endowment earned zero to 5 percent on investments for fiscal 2012, President Shirley Tilghman said earlier this month.

- Michael McDonald

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