



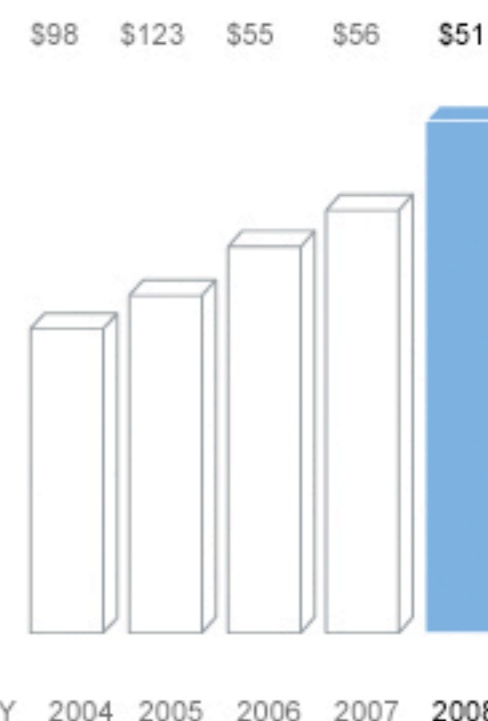
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Although most endowment gifts are made in perpetuity, allowing little or no access to principal, some allow access to principal to provide the School flexibility in achieving the purposes for which they were designated. In addition, HBS occasionally draws upon capital appreciation associated with prior-year gifts. Funds from these decapitalizations are used to support key initiatives in keeping with donor intentions.

The primary function of the HBS endowment is to provide the long-term financial stability that allows the School to weather periods of economic turbulence and remain focused on its strategic mission. The University determines the amount that can safely be drawn from the endowment to spend in any given year. This calculation is based on a disciplined annual payout policy that reflects HMC's projections of future endowment returns.

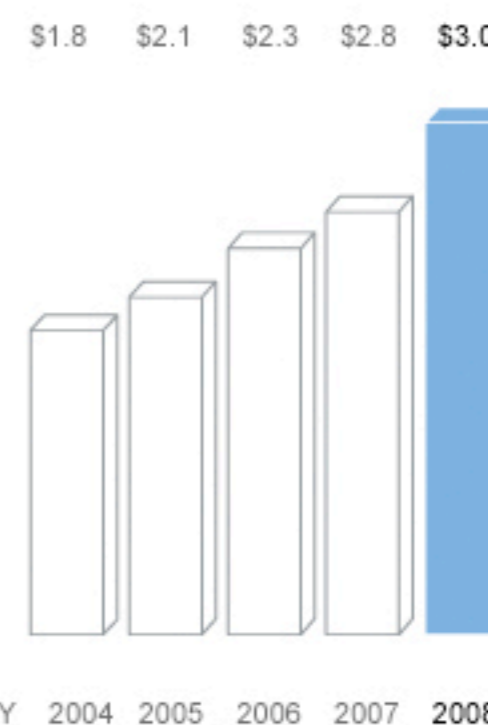
The University's goals are to provide a reliable stream of operating income, to protect the purchasing power of the original gifts from erosion by inflation, and to build capital for the future by achieving superior risk-adjusted returns. Given these goals, Harvard's long-term target has been to distribute between 4.5 and 5 percent of the endowment's market value annually. Following the endowment's strong investment returns from fiscal 2003 through 2005, in fiscal 2006 the University decided to authorize distributions up to a level of 5.25 percent for the next several years.

Fiscal 2008 proved to be a challenging year for investors, as the majority of asset classes underperformed their long-term averages. As a consequence, the absolute return on the University endowment of +8.6 percent lagged the average annual returns achieved over the past five and ten years of 17.6 percent and 13.8 percent, respectively. After including all gifts received, netted against annual distributions and decapitalizations, at June 30, 2008, the University endowment was valued at \$36.9 billion, compared with \$34.9 billion a year earlier.



Cash Received from Gifts  
(Dollars in millions)

\* Years coincide with The Campaign for Harvard Business School.



Endowment Growth  
(Dollars in millions)

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