

Harvard University

Endowment Strategy

Investment Objective

Harvard's endowment employs a long-term growth strategy that supports Harvard University's annual spending rate without exceeding the University's risk tolerance.

Description

Harvard partners with world-class asset managers to invest in a wide variety of public and private asset classes and strategies, including public equities, private equity, hedge funds, real estate, and fixed income securities, among others.

Availability

The endowment strategy is only available to charitable remainder trusts that name Harvard University as the sole remainder beneficiary.

Advantages

The endowment invests in a diversified array of asset classes which together create a portfolio with an attractive risk/return profile. While future returns are not guaranteed, Harvard believes that the endowment option provides the potential for competitive returns going forward.

Disadvantages

Distributions from the endowment are considered ordinary income for tax purposes. As a result, payments from a charitable remainder trust invested in the endowment will be taxed at the income beneficiary's highest marginal tax rate.

More Information

For more information about Harvard Management Company, please go to: www.hmc.harvard.edu.

Taxation of Payments

Today the highest marginal federal income tax rate on ordinary income is 37.0%. A beneficiary in this tax bracket would also be subject to the 3.8% Medicare tax on investment income. Based on these rates, a hypothetical trust payment of \$10,000 would create a tax liability of \$4,080. The after-tax payment would therefore be \$5,920. None of the payment would be taxed at the lower tax rate for long-term gains and qualified dividends. Please consult your tax or financial advisor for how this information applies to you.

Sample Tax Analysis

	Assumed Tax Rate	Percentage of the Annual Payment	Tax Liability on a \$10,000 Payment
Ordinary income	40.8%	100%	\$4,080
Long-term gains and qualified dividends	23.8%	0%	\$0
Total		100%	\$4,080

Assumes the trust is invested in the Harvard endowment and the beneficiary is subject to the highest marginal federal income tax rate and the 3.8% Medicare tax. State taxes are ignored.

Historical Performance

Below are the historical returns for a sample trust invested in the Harvard endowment.

Trailing Performance Ending December 31, 2020

Trailing Period	Return
1 Year	15.8%
3 Years	10.1%
5 Years	9.0%
7 Years	7.7%
10 Years	7.9%

Past performance is not indicative of future returns. Returns for periods greater than one year are annualized. The returns of the Harvard endowment have been internally calculated by Harvard Management Company using consistent valuation methodologies.



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Tax Efficient Strategies

Investment Objective

The tax efficient strategies are designed to earn attractive risk-adjusted returns over the trust's investment horizon, while also generating tax efficient distributions for the income beneficiaries.

Management

The tax efficient strategies are managed by TIAA Kaspick with active oversight by the University's Investment Committee. Each trust has its own custody account at Charles Schwab & Co., Inc. Portfolios are rebalanced periodically taking into account the tax impact of trades.

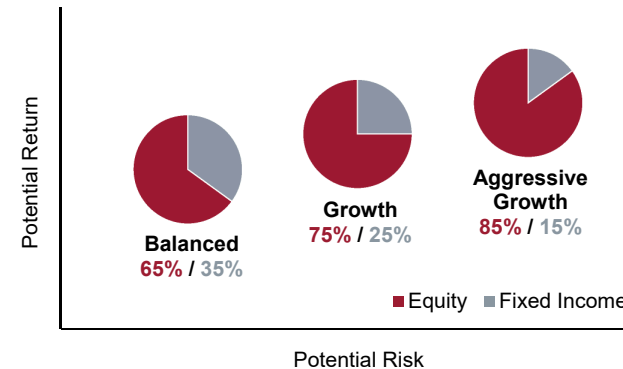
Description

The portfolios are globally diversified across stocks and bonds using mutual funds and exchange traded funds. This approach is designed to produce competitive long-term results, while potentially protecting portfolios in difficult economic environments. The equity allocations are invested primarily in passive index strategies to capture market returns in a cost effective and tax efficient manner. The fixed income allocations are invested with active managers. While the portfolios are managed with a long-term perspective, the asset class and manager weights can change in response to market conditions and investment opportunities.

Availability

The tax efficient strategies are available to charitable remainder trusts that name Harvard University and/or other charities as the remainder beneficiary(ies) and to charitable lead trusts.

Risk/Return Profiles of the Tax Efficient Strategies



Harvard offers three allocations with increasing exposure to equities, from 65% for Tax Efficient Balanced to 85% for Tax Efficient Aggressive Growth. Higher levels of equities are associated with higher expected returns over time but also greater risk. The greater the volatility in the market value of a standard unitrust, the more the beneficiary payments will fluctuate from year-to-year.

Choosing an Investment Allocation

Tax Efficient Growth is the standard allocation for charitable trusts not invested in the Harvard endowment. Based on individual circumstances, a more conservative or more aggressive allocation might be appropriate. There are multiple factors to consider when selecting an investment allocation for a charitable trust. Before making a selection, Harvard will work closely with you to assess the following:

- Your objectives
- Trust type and payout rate
- Expected time horizon of the trust
- Income needs and tax considerations of the income beneficiaries
- Any other unique circumstances

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Tax Efficient Strategies

Advantages

The portfolios are managed to generate competitive long-term investment returns while optimizing beneficiaries' after-tax payments. The portfolios have daily liquidity and are invested in low cost funds. The weighted-average mutual fund expense ratio of Tax Efficient Growth is 0.10%.

Disadvantages

Unlike the endowment strategy, the investments in the tax efficient allocations are limited to public market securities.

Taxation of Payments

Payments from a charitable remainder trust invested in a tax efficient allocation will be taxed at a blend of the income beneficiary's ordinary income tax rate and the lower tax rate for long-term capital gains and qualified dividends.

Today the highest marginal federal income tax rate on ordinary income is 37.0%, while the highest long-term capital gains rate is 20.0%. A beneficiary in this tax bracket would also be subject to the 3.8% Medicare tax on investment income. Based on these rates, a hypothetical trust payment of \$10,000 would create a tax liability of \$2,822. The after-tax payment would therefore be \$7,178. Please consult your tax or financial advisor for how this information applies to you.

Sample Tax Analysis

	Assumed Tax Rate	Percentage of the Annual Payment	Tax Liability on a \$10,000 Payment
Ordinary income	40.8%	26%	\$1,061
Long-term gains and qualified dividends	23.8%	74%	\$1,761
Total		100%	\$2,822

Assumes the trust receives the 2018–2020 average distributions from the mutual funds held in Tax Efficient Growth and incurs no trading gains or losses. The analysis also assumes the beneficiary is subject to the highest marginal federal income and capital gains tax rates and the 3.8% Medicare tax. State taxes are ignored.

Tax Efficient Strategies

Fund	Tax Efficient Aggressive Growth	Tax Efficient Growth	Tax Efficient Balanced
Vanguard S&P 500 Index	33.50%	29.50%	25.50%
U.S. Large Cap Stocks	33.50%	29.50%	25.50%
Vanguard S&P 400 Mid-Cap Index	8.50%	7.50%	6.50%
U.S. Mid Cap Stocks	8.50%	7.50%	6.50%
Vanguard Tax-Managed Small-Cap	4.00%	3.50%	3.00%
U.S. Small Cap Stocks	4.00%	3.50%	3.00%
Vanguard Developed Markets Index	25.50%	22.50%	19.50%
International Stocks	25.50%	22.50%	19.50%
Vanguard Emerging Markets Stock Index	8.50%	7.50%	6.50%
Emerging Market Stocks	8.50%	7.50%	6.50%
Cohen & Steers Inst'l Realty Shares	5.00%	4.50%	4.00%
U.S. REITs	5.00%	4.50%	4.00%
Total Equities	85.00%	75.00%	65.00%
Vanguard Intermediate-Term Treasury	10.00%	8.50%	8.50%
Vanguard Inflation Protected Securities	2.00%	2.25%	3.75%
Vanguard Interm.-Term Investment-Grade		5.75%	10.00%
Pimco International Bond (USD-Hedged)		2.50%	4.50%
Vanguard High-Yield Corporate		3.00%	5.25%
Total Fixed Income	12.00%	22.00%	32.00%
Cash	3.00%	3.00%	3.00%
Total	100.00%	100.00%	100.00%

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Tax Efficient Strategies

Performance History Based on Model Returns: Trailing Results Ending June 30, 2021

	Tax Efficient Aggressive Growth	Strategic Multi-Asset Benchmark	85% / 15% Traditional Benchmark	Tax Efficient Growth	Strategic Multi-Asset Benchmark	75% / 25% Traditional Benchmark	Tax Efficient Balanced	Strategic Multi-Asset Benchmark	65% / 35% Traditional Benchmark
Trailing Returns									
1 Year	34.4%	34.2%	34.1%	30.7%	30.6%	29.7%	26.9%	26.8%	25.4%
3 Years	12.9%	12.8%	13.0%	12.2%	12.2%	12.1%	11.5%	11.5%	11.2%
5 Years	12.6%	12.5%	12.8%	11.7%	11.7%	11.7%	10.7%	10.7%	10.5%
10 Years	9.6%	9.6%	8.9%	9.2%	9.2%	8.3%	8.6%	8.6%	7.6%
15 Years	8.0%	8.1%	7.3%	7.8%	7.9%	7.0%	7.6%	7.7%	6.7%
Risk Statistics 15 Years									
Standard Deviation	13.9%	13.8%	14.0%	12.6%	12.6%	12.4%	11.3%	11.3%	10.8%
Sharpe Ratio	0.55	0.56	0.50	0.58	0.59	0.53	0.61	0.62	0.56
Maximum Drawdown	-47.5%	-47.5%	-48.5%	-43.8%	-43.8%	-43.7%	-39.6%	-39.5%	-38.5%

Strategic Multi-Asset Benchmarks

Asset Class	Tax Efficient Aggressive Growth	Tax Efficient Growth	Tax Efficient Balanced	Market Index
U.S. Large Cap Stocks	33.50%	29.50%	25.50%	S&P 500
U.S. Mid Cap Stocks	8.50%	7.50%	6.50%	S&P MidCap 400
U.S. Small Cap Stocks	4.00%	3.50%	3.00%	S&P SmallCap 600
International Stocks	25.50%	22.50%	19.50%	FTSE Developed All Cap ex U.S.
Emerging Markets Stocks	8.50%	7.50%	6.50%	FTSE Emerging Markets All Cap China A Inclusion
U.S. REITs	5.00%	4.50%	4.00%	FTSE NAREIT All Equity REITs
Total Equities	85.00%	75.00%	65.00%	MSCI ACWI IMI
U.S. Treasuries	10.00%	8.50%	8.50%	Bloomberg U.S. 5-10 Year Treasury Bond
U.S. TIPS	2.00%	2.25%	3.75%	Bloomberg U.S. Treasury Inflation Protected Securities
U.S. Investment Grade Bonds	0.00%	5.75%	10.00%	Bloomberg U.S. 5-10 Year Credit Bond
International Bonds (USD-Hedged)	0.00%	2.50%	4.50%	Bloomberg Global Aggregate ex U.S (USD-Hedged)
U.S. High Yield Bonds	0.00%	3.00%	5.25%	Bloomberg U.S. High-Yield Corporate
Total Fixed Income	12.00%	22.00%	32.00%	Bloomberg U.S. Intermediate Government/Credit Bond
Cash	3.00%	3.00%	3.00%	FTSE 1-Month U.S. Treasury Bill
Total	100.00%	100.00%	100.00%	

Traditional Benchmarks

Equities	85.00%	75.00%	65.00%	MSCI ACWI IMI
Fixed Income and Cash	15.00%	25.00%	35.00%	Bloomberg U.S. Intermediate Government/Credit Bond
Total	100.00%	100.00%	100.00%	

Disclosures: The Tax Efficient model returns are calculated using the mutual fund returns of the funds used in the Tax Efficient portfolios, each weighted by its current target weight, rebalanced monthly. The returns reflect the reinvestment of dividends and other earnings and are provided by Morningstar, Inc. The returns shown are total returns after mutual fund expense ratios; they do not reflect investment advisory fees charged by TIAA Kaspick (which are paid by Harvard University). The Strategic Multi-Asset Benchmarks are calculated using the market index returns of the asset classes used in the Tax Efficient portfolios, each weighted by its long-term strategic target, rebalanced monthly. The Traditional Benchmarks are calculated using a mix of the MSCI ACWI IMI index and the Bloomberg U.S. Intermediate Government/Credit Bond index, rebalanced monthly. Returns have been annualized for periods greater than one year. Past performance is not indicative of future performance.