

Harvard Billionaires Bail Out Alma Mater From Poor Fund Returns

The university's endowment returns may lag the Ivy League average, but Wall Street's elite make the school a fundraising powerhouse.



Illustration: Kelsey Dake for Bloomberg Businessweek

By Michael McDonald, Janet Lorin, and Ivan Levingston

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Three years ago, hedge fund billionaire John Paulson offered his alma mater, Harvard Business School, an enormous gift. Nitin Nohria, the school's dean, responded in a way that would shock most other charitable organizations: Thanks, but we don't need it. Instead, Nohria suggested that Paulson direct the money toward Harvard's engineering school, according to people familiar with the exchange. So, in 2015, Paulson did just that, giving \$400 million, a gift the university called its largest ever.

This embarrassment of riches helped Harvard University raise more than \$9 billion in its most recent fundraising campaign. That record haul represents a key achievement of Drew Faust, who steps down this month as Harvard's 28th president after an 11-year tenure. Among other bequests, she secured \$150 million from hedge fund Citadel Advisors' Ken Griffin, largely for financial aid. Another \$50 million came from the family foundation of Ukrainian-born American industrialist and investor Len Blavatnik for biomedical research. The foundation of Glenn Hutchins, co-founder of private equity firm Silver Lake, gave \$30 million in part to renovate undergraduate dorms.

Such benefactors, in effect, bailed out Harvard from Faust's other legacy: a decade of poor investment performance at the university's \$37.1 billion endowment, higher education's largest. During that time, it returned an annualized 4.4 percent, compared with 5.9 percent for the average Ivy League school. By lagging the average, Harvard missed out on about \$6 billion in investment gains over the last decade, according to an estimate by Wellesley College economist Phillip Levine. (His model made various assumptions, such as a 5 percent annual spending rate.)

Like all elite colleges, Harvard and its Cambridge, Mass., campus are growing ever more dependent on a smaller group of super-wealthy philanthropists. Almost one-third of the dollar value of gifts to all colleges in the last year came from only a dozen donors, according to the Council for Aid to Education, a New York nonprofit that tracks higher education gifts. Top universities are vying for multimillion-dollar donations as mega-gifts fuel the record \$58.9 billion given last year to education, mostly colleges, according to an estimate by Giving USA, which tracks philanthropy. "We are always striving to hit a new high, because that just gives us a greater opportunity to do more to benefit both our student body and our faculty," says John Taylor, a higher education fundraising consultant.

It's part of a growing divide in higher education. While a few are giving vast sums, the percentage of alumni who give at all to colleges has been declining for two decades, dropping to 7.4 percent last year,

from 19 percent in 1990, according to the aid council. Harvard graduates are far more loyal than the typical college; nonetheless, only 17.3 percent gave last year, the lowest level since 2000. These nongivers may be reflecting the disdain shown by critics, such as writer Malcolm Gladwell, who questioned Paulson's gift at the time: "It came down to helping the poor or giving the world's richest university \$400 mil it doesn't need. Wise choice John!"

In an earlier interview with Bloomberg TV about her legacy, Faust said, "Money is an enabler. It isn't an end in itself." Harvard says 152,000 families contributed to its fundraising campaign, which improves society by expanding access to education and advancing knowledge through research. Harvard is committed to "a better Harvard and a better world," says Tamara Rogers, vice president for alumni affairs and development.

Jonathan Hoffman, Harvard class of 1969 and a lawyer in Portland, Ore., says he gave "substantial sums" a decade ago but cut back to \$100 a year—and now, nothing—because he didn't think an institution that pays its endowment managers millions of dollars a year needed his cash. He gives to Room to Read and Habitat for Humanity instead. "There are so many organizations in need," he says.

This sentiment may help explain why colleges are getting little sympathy in their attempt to roll back Congress's new tax on

endowments, which will apply to Harvard and about 30 of America's richest schools. Harvard has said it expects to pay about \$40 million annually. Faust has been personally lobbying members of Congress in Washington to repeal the tax, but a bill that would do it has garnered only a dozen sponsors.

By all accounts, Faust has been a tireless fundraiser, collecting more than any other Harvard president. Under her tenure, Harvard, for the first time since the 1600s, started naming schools and deanships for donors. For example, it named the engineering school after Paulson and the public health school after the father of investor Gerald Chan, in honor of his family's \$350 million gift. (Michael Bloomberg, the founder and majority owner of Bloomberg LP, the parent of Bloomberg News, made a \$32 million gift for a leadership program, Harvard announced in 2016.)

Faust's fundraising success is especially striking, given that she instituted a policy sanctioning members of Harvard's elite single-gender Final Clubs—a move that has angered many alumni. Jim Napolitan, class of '69, has given about \$700,000 to Harvard and planned to give a portion of his estate when he and his wife die. He has concerns about Harvard's approach toward single-sex organizations. "My guess it was wise that they imposed this after the lion's share of the capital campaign was completed," says Napolitan, who lives in Chicago and is a retired commodity trader and

psychologist. “Had it been any earlier, this could have stripped its undergirdings.”

Faust’s successor, Lawrence Bacow, a former president of Tufts University, will have to keep on the good side of donors such as Anthony Lamport, who has undergraduate and business degrees from Harvard. Lamport, president of Lambda Fund Management in New York, says Harvard has addressed the problem of its endowment’s underperformance by hiring a new chief, N.P. Narvekar, from better-performing Columbia University. “The institution needs it, and I don’t think it’s money down a rathole or something,” says Lamport, speaking of donations. “Harvard will be there forever, and, as a matter of fact, you have to invest for the long run.”