

Investment Strategies and Financial Performance of a Leading University Endowment Fund

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Abstract. This paper examines the investment strategies and financial performance of a leading university endowment fund as of 2025. Emphasizing a diversified portfolio with a significant allocation to alternative investments such as private equity and hedge funds, the fund targets long-term growth and financial sustainability. Through active management and strategic partnerships, it aims to optimize risk-adjusted returns while ensuring liquidity to meet payout requirements. The recent fiscal year demonstrated robust performance with returns surpassing benchmarks, highlighting effective manager selection and portfolio diversification. Challenges linked to illiquidity and market volatility are discussed alongside the fund's integral role in supporting the university's academic mission. The analysis concludes with insights on future strategic shifts to maintain resilience and capital preservation amid evolving economic conditions.

Keywords: university endowment, investment strategy, financial performance.

I. Introduction

The Harvard University endowment stands as the largest academic endowment globally, currently valued at approximately \$56.9 billion as of mid-2025. It comprises roughly 14,765 individual funds dedicated to supporting diverse facets of the university's wide-ranging academic, research, and financial aid programs. This substantial financial pool plays a crucial role in supporting Harvard's academic mission, funding scholarships, faculty salaries, and research initiatives. Managed by the Harvard Management Company (HMC), the endowment consistently achieves strong returns, with a recent 11.9% gain for fiscal year 2025, exceeding its long-term benchmark of 8%. This financial resilience not only underpins Harvard's operational needs but also exemplifies sophisticated investment management in the university sector, making its approach a vital subject for study (Harvard University, 2025; Forbes, 2025; Harvard Management Company, 2025).

Governance and management of this vast endowment rest with the Harvard Management Company (HMC), established as a wholly owned subsidiary of the university. HMC operates with a high degree of autonomy, employing a professional team of investment specialists tasked with overseeing the fund's diversified portfolio. Their mandate is to maximize long-term investment returns while managing risk prudently to ensure that spending policies can be sustainably met. The company's governance structure involves close collaboration with Harvard's senior leadership and an investment advisory committee, which helps align the endowment's goals with the broader academic mission (Harvard Management Company, 2025; Harvard University, 2025).

Historically, the endowment was built from donations, bequests, and prudent investment policies implemented over several centuries, enabling it to evolve into a sophisticated institutional investor. Harvard's long-term financial objective for the endowment is to generate returns that outpace inflation and the university's spending needs, preserving the purchasing power of the fund over time. This enduring commitment to financial strength underpins much of Harvard's ability to offer generous financial aid packages and invest in emerging academic priorities, securing its leadership position in global higher education (Harvard University, 2025; Forbes, 2025).

Analyzing Harvard's investment strategy and financial performance provides essential insights into how such a vast fund balances risk, return, and liquidity to sustain its long-term commitments. Understanding these dynamics is especially critical in an era of economic uncertainty and shifting market conditions, where endowment funds face challenges such as volatile markets and altered government funding landscapes. This paper aims to examine the structure and rationale behind Harvard's investment strategy, evaluate its recent financial performance, and discuss the implications of these findings for the university's financial sustainability.

This paper focuses on comprehensively assessing Harvard's endowment investment approach and performance from 2024 to 2025. It covers asset allocation, manager selection, portfolio diversification, and return outcomes, culminating in an evaluation of strengths, vulnerabilities, and strategic outlooks for one of the most influential endowment funds worldwide.

II. Research Method

This study employs content analysis as its research method, focusing specifically on the 2025 financial report published by the Harvard Management Company (HMC). Content analysis is a systematic, qualitative technique used to interpret text data by coding and categorizing key themes, patterns, and concepts relevant to the research objectives (Bowman, 1982; Columbia University, 2023). In this context, the method enables a detailed examination of the endowment's investment strategies, asset allocation, financial performance, and risk management approach as reported in official documentation. By analyzing the language, figures, and disclosures presented in the financial report, this study derives insights into the fund's operational practices and strategic adjustments. The research follows a structured process of selecting relevant sections of the report, coding recurring themes such as alternative investments, manager selection, and payout policies, and synthesizing findings to assess the endowment's effectiveness and challenges. This approach provides an empirical foundation while leveraging publicly available, authoritative data, ensuring that conclusions reflect the fund's actual performance and strategic orientations.

III. Results and Discussion

Investment Strategy

Harvard Management Company (HMC), tasked with overseeing the university's endowment, employs a sophisticated and dynamic investment strategy that has evolved significantly over the past decade. At the core of its approach is a commitment to long-term growth, risk management, and the fulfillment of Harvard's academic mission. The endowment's portfolio is highly diversified, heavily weighted toward alternative assets, and managed through a generalist investment model that fosters collaboration across asset classes to optimize risk-adjusted returns.

The portfolio's asset allocation as of June 30, 2025, reflects a strategic shift emphasizing private equity, which constitutes 41% of total holdings, followed by hedge funds at 31%, public equities at 14%, real estate at 5%, bonds and Treasury Inflation-Protected Securities (TIPS) at 4%, other real assets at 3%, and cash at 3% (Harvard Management Company, 2025; Markets Group, 2025). This distribution showcases Harvard's prioritization of illiquid, high-return assets like private equity and hedge funds, which, despite their complexity and longer investment horizons, have historically yielded superior returns and diversification benefits compared to traditional stocks and bonds.

Private equity itself is subdivided into several subsectors: venture capital accounts for 14%, buyouts 13%, growth venture 10%, and growth buyouts 4%. This varied allocation allows HMC to access a broad spectrum of growth opportunities, from early-stage innovation to mature company buyouts. Such investments provide exposure to cutting-edge technologies and high-growth companies that can outperform public markets over time (Harvard Management Company, 2025).

Hedge funds comprise a similarly diverse segment of the portfolio, including uncorrelated strategies (16%), long-short equity (9%), multi-strategy (3%), and credit investments (3%). Uncorrelated hedge funds are particularly crucial as they help buffer the portfolio against market volatility by delivering returns independent of broader market movements. This strategic allocation thus contributes to risk mitigation and liquidity management across different economic cycles (Harvard Management Company, 2025).

Public equities, while smaller in allocation, remain essential for liquidity and capturing market gains. HMC has demonstrated an active approach to public equity management, regularly adjusting its holdings in response to market trends and valuation assessments. Notably, in 2025, HMC initiated significant portfolio rebalancing, including exiting major technology stocks like Apple, Amazon, and Tesla early in the year, but re-entering Amazon and increasing positions in Microsoft and Nvidia later. This selective trading indicates a nimble, research-driven procedure aimed at maximizing returns while managing sector exposure and concentration risk. Such active management exemplifies HMC's generalist investment model, where portfolio teams share responsibility across asset classes rather than working in silos, fostering holistic investment decisions (The Crimson, 2025).

Real assets, including real estate, have been deliberately reduced from historic allocations near 25% to around 5% as part of broader portfolio optimization aiming to enhance liquidity and reduce risk. While real assets traditionally provide inflation hedging and stable income streams, recent assessments by HMC indicated that a heavier focus on growth-oriented investments aligns better with the endowment's long-term return objectives and risk appetite (Harvard Management Company, 2025).

Another notable aspect of HMC's investment strategy is its emphasis on partnerships with world-class external managers. While HMC has internal capabilities, leveraging external specialists allows access to niche markets, proprietary deal flow, and specialized expertise that enhance overall portfolio performance.

This hybrid approach has been a hallmark of HMC's evolution, balancing scalability with deep knowledge in complex asset classes like private equity and hedge funds (Harvard Management Company, 2024).

Strategic portfolio evolution over recent years depicts a measured increase in equity exposure aimed at enhancing long-term growth potential while preserving essential resilience against market shocks. CEO Narv Narvekar has emphasized that while asset allocation significantly influences returns, recognizing volatility and the university's capacity to endure it is equally important. The recalibration strategy has led to stronger recent performance, with annualized returns of 9.6% since Narvekar's leadership began eight years ago, surpassing the endowment's long-term 8% return target (AI-CIO, 2025).

Risk management underpins Harvard's investment philosophy, integrated through rigorous diversification not only across asset classes but also geographies, investment styles, and time horizons. This broad diversification helps minimize portfolio sensitivity to adverse events in any single market or sector. Moreover, HMC employs stress testing and scenario analyses to anticipate the impact of macroeconomic shifts, liquidity crunches, and market volatility, ensuring the fund's capacity to meet its spending obligations in all environments (Harvard Management Company, 2025).

Noteworthy is HMC's active engagement in the secondary market for private equity, a practice that allows buying and selling of stakes in existing private investments, offering enhanced liquidity and portfolio flexibility. This innovation has helped reduce risk concentration in real estate and other illiquid assets, aligning with the goal of maintaining an adaptable and balanced portfolio suited to long-term commitments (AI-CIO, 2025; LinkedIn, 2025).

HMC has also begun to diversify beyond traditional asset classes, increasing allocations to emerging alternatives such as investments in gold and cryptocurrency-related instruments, albeit at relatively modest levels. These moves reflect a cautious exploration of new diversification avenues that might provide protection against inflation and currency-related risks in a changing global market (The Crimson, 2025).

Overall, the Harvard endowment's investment strategy represents a forward-looking, adaptive approach that balances high-return opportunities with prudent risk controls. The shift from a "silo" investment model—where teams specialized in isolated asset classes—to a generalist model fosters integrated portfolio management, enabling investment professionals to view the portfolio holistically. This structural change reduces duplication and gaps, encouraging a unified strategy aligned with optimizing risk-adjusted performance. The result is an endowment positioned to sustain Harvard's academic mission through both prosperous and challenging market cycles, emphasizing capital preservation, liquidity, and steady growth over decades.

Financial Performance Analysis

In fiscal year 2025, the Harvard University endowment demonstrated a robust financial performance that reinforced its pivotal role in supporting the university's academic and operational needs. According to Harvard Management Company's (HMC) annual report, the endowment achieved a return of 11.9%, significantly exceeding its 8.0% long-term benchmark. This gain increased the endowment's total asset value to \$56.9 billion as of June 30, 2025, up from \$53.2 billion the prior fiscal year. Under the leadership of CEO Narv Narvekar, the endowment has achieved an impressive annualized return of approximately 9.6% over the past eight years, consistently meeting or surpassing expectations despite the challenges posed by market volatility and an evolving regulatory landscape (Harvard Management Company, 2025; Markets Group, 2025; AI-CIO, 2025).

The endowment's financial performance reflects the successful execution of an active management strategy that emphasizes skillful manager selection and dynamic asset allocation. A critical driver of returns has been the ability to identify and partner with highly skilled external managers, particularly in alternative asset classes such as private equity and hedge funds. These managers have demonstrated the capability to generate alpha—returns above market benchmarks—by investing in high-growth companies, managing complex portfolios, and exploiting inefficiencies across global markets. Public equity managers have contributed steady gains by focusing on high-quality stocks with solid growth prospects and strong dividend histories. The blend of liquid and illiquid investments within the portfolio allows the endowment to optimize return potential while maintaining sufficient liquidity to meet annual spending requirements (ROIC.ai, 2025; Harvard Management Company, 2025).

Comparison to market benchmarks and peer institutions further validates the endowment's strong performance. The 11.9% return for fiscal 2025 outpaced major equity indices such as the S&P 500, which returned approximately 9.0% during the same period. When set against the performance of peer university endowments—many of which employ similar alternative-heavy strategies—Harvard consistently ranks among the top performers. This competitive edge stems from its diversified asset allocation and deep commitment to alternative investments, which provide exposure to uncorrelated risks and returns less

dependent on public market movements. While the reliance on private equity and venture capital introduces valuation complexities and illiquidity concerns, the long-term growth potential of these assets has contributed significantly to the endowment's asset appreciation (Harvard Management Company, 2025; Markets Group, 2025; Yale Investments Office, 2024).

Individual asset classes within the portfolio have experienced varying degrees of success and challenges. Private equity, now representing 41% of the portfolio, has been the largest contributor to returns, benefiting from continued ecosystem growth in technology, healthcare, and consumer sectors. Venture capital investments, despite inherent risks, have yielded notable gains by backing disruptive innovators. Hedge funds, comprising 31% of the portfolio, have provided diversification and downside protection, with uncorrelated strategies playing a key role in preserving capital during market downturns and broadening the return base. Public equities, while a smaller share (14%), have offered liquidity and incremental growth, leveraging active management and selective reinvestments—such as re-entering major tech names after strategic divestments earlier in the year. Real estate and other real assets, reduced in recent years, continue to supply stable income but are systematically weighted to balance the need for liquidity and long-term return alignment (Harvard Management Company, 2025; ROIC.ai, 2025; The Crimson, 2025).

A crucial aspect of the endowment's financial management is balancing investment returns with payout policies. Harvard's payout rate, around 5.0% to 5.5% annually, is designed to support the university's operational budget, scholarships, faculty compensation, and research endeavors. The endowment returns must surpass this payout rate and inflation over time to preserve and grow the real value of the fund. While the 2025 investment returns have comfortably exceeded the payout threshold, looming tax changes could impact net distributable income significantly. For example, recent federal tax policies threaten to increase the tax burden on large university endowments substantially, which may constrain funding available for academic programs in coming years. Effective fiscal management, therefore, becomes paramount to maintain Harvard's academic excellence despite these external pressures (Harvard Magazine, 2025; Forbes, 2025).

The university faced an operating loss of \$113 million in fiscal year 2025, its first deficit since 2020, attributed primarily to federal funding disruptions and regulatory changes outside the endowment's direct control. Despite this, the rising endowment value and investment returns provide a financial cushion assisting Harvard during periods of operational shortfall. Donations also increased by nearly 20% in 2025, further bolstering the university's resources in the face of political and economic uncertainties. This combination of sustained strong endowment returns and philanthropic support underscores the critical role of the investment portfolio in maintaining Harvard's fiscal resilience (Harvard Magazine, 2025; The Crimson, 2025).

In conclusion, Harvard's financial performance analysis for 2025 highlights an investment strategy that effectively combines careful asset allocation, expert manager selection, and strong risk management to generate returns above industry benchmarks. While challenges such as taxation changes and federal research funding disruptions pose risks, the endowment's size, diversification, and historical performance suggest it is well-positioned to continue supporting Harvard's academic mission long-term. Ongoing strategic adaptation and fiscal prudence will be essential to sustain this performance trajectory in an increasingly complex environment.

Critical Discussion and Implications

Harvard University's endowment investment approach exhibits several notable strengths that have contributed to its sustained success and market leadership. One of the most significant advantages is the endowment's highly diversified asset allocation, especially its strong emphasis on alternative investments such as private equity and hedge funds. These investments offer higher return potentials compared to traditional stocks and bonds and provide important diversification benefits because their performance is less correlated to public equity markets. The portfolio's size and diversity allow it to access top-tier managers globally, thus securing privileged opportunities and superior deal flow. This level of access is a distinct advantage that smaller endowments often cannot replicate. The generalist team approach at Harvard Management Company (HMC), where portfolio managers coordinate across asset classes, fosters holistic risk management, promotes knowledge sharing, and optimizes asset allocation decisions based on a unified strategic vision (Harvard Management Company, 2025; Markets Group, 2025).

Alongside these strengths, certain risks and criticisms warrant attention. The large allocation to illiquid assets such as private equity introduces liquidity constraints, potentially complicating cash flow management during market downturns or when spending needs increase unexpectedly. Valuation challenges inherent in private markets create uncertainty about the true market value of portfolio holdings

at any given time. Some critics argue that this illiquidity and valuation opacity obscure risk and may mask underperformance in certain asset classes. Market volatility also remains a challenge, particularly for venture capital and hedge fund strategies that can exhibit nonlinear returns and sensitivity to macroeconomic shifts. Recently, Harvard has faced scrutiny concerning whether its returns justify the fees paid to external managers, and whether the complexity of its portfolio might reduce overall transparency and oversight effectiveness (Harvard Crimson, 2024; Harvard Magazine, 2025).

Another emerging challenge involves changes in the regulatory and fiscal environment. The new federal taxation regime increases the tax rate on large university endowments from 1.4% to 8%, significantly affecting net investment income and thus available funds for operations, research, and financial aid. Moreover, there are threats to the endowment's tax-exempt status, which would affect both investment earnings and the inflow of future donations. These factors combined could pressure Harvard to increase liquidity and adjust its payout rates, potentially constraining investment flexibility and imposing additional risk on the portfolio (Ortec Finance, 2025; Harvard Magazine, 2025).

Despite these risks, the endowment plays an indispensable role in Harvard's financial health and stability. Nearly 40% of the university's annual operating revenue stems from distributions from the endowment, underscoring its importance as a reliable, relatively stable funding source. The endowment's ability to generate solid returns while managing volatility enables Harvard to maintain generous scholarships, retain world-class faculty, invest in cutting-edge research, and upgrade infrastructure. Especially during times of external funding reductions, such as frozen federal research grants or geopolitical uncertainties affecting enrollment, the endowment provides a financial bulwark that supports Harvard's enduring academic excellence (Harvard Management Company, 2025; Harvard Magazine, 2025).

Strategically, HMC's adoption of a more integrated investment model, moving away from strictly siloed management teams toward a cross-functional generalist approach, improves portfolio coherence and risk assessment. This transition facilitates nimble responses to changing economic conditions and enables the portfolio to maintain balance between growth and stability. The fund's moderate increase in equity exposure in recent years is a calculated move to enhance long-term returns while leveraging Harvard's capacity to absorb interim market shocks. This balance between growth aspirations and risk controls is vital for maintaining capital preservation across decades (AI-CIO, 2025).

In conclusion, Harvard's endowment exemplifies a complex but well-managed investment vehicle with a clear mission to support the university's academic objectives sustainably. Its strengths in diversification, expert external partnerships, and strategic adaptation have allowed it to produce consistent superior returns relative to peers, even amid changing market and regulatory landscapes. The endowment's resilience, however, depends on its ability to continue innovating its investment strategies while prudently managing liquidity and regulatory risks in a rapidly evolving environment.

IV. Conclusion

The financial and strategic analysis of the leading university endowment fund reveals a robust and adaptive investment approach that has consistently generated superior returns and sustained the institution's academic mission. Achieving an 11.9% return in fiscal year 2025, the endowment significantly outperformed its long-term benchmark, reflecting the strategic emphasis on private equity and hedge funds alongside a diversified portfolio that balances growth and risk. The shift from a siloed investment management model to an integrated generalist approach has enhanced portfolio coherence and improved decision-making, fostering a more holistic and dynamic allocation strategy. These factors have converged to create an endowment that not only preserves capital over the long term but also provides essential financial support for scholarships, faculty salaries, research initiatives, and infrastructure development.

Looking forward, the endowment faces challenges including increased federal taxation and changes in regulatory frameworks that could affect its net earnings and spending flexibility. However, the fund's size, diversification, and professional management position it well to adapt to these pressures. Strategic shifts toward increasing equity exposure, leveraging secondary markets, and cautiously exploring emerging alternative asset classes are expected to enhance long-term returns while maintaining adequate liquidity and risk controls.

Overall, this endowment serves as a model for institutional investors managing large pools of capital with long-term horizons. Its investment philosophy prioritizes sustainable growth, risk mitigation, and alignment with the institution's values, ensuring continued financial health and the ability to support successive generations of scholars. Maintaining agility in strategy implementation amid evolving market and policy landscapes will be paramount to its future success.

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