HARVARD
MANAGEMENT
COMPANY, INC.

600 ATLANTIC AVENUE
BOSTON, MA 02210-2203

Mr. John Harvard
Harvard Yard
Cambridge, MA 02138

September 12, 2008

Dear John:

This letter is the seventeenth annual report on the results of Harvard Management Company (HMC) to the friends of Harvard. As in the past, we will update you on the investment results for the fiscal year ended June 30, 2008 and also on the five and ten year fiscal periods ended on that same date.

Overview

The endowment registered a year of solid absolute and relative performance. Total investment return for Fiscal Year 2008 was 8.6%, net of all fees and expenses.

After taking into account annual distributions to the University and the receipt of new gifts, these investment results increased the value of the endowment from $34.9 billion as of July 1, 2007 to $36.9 billion as of June 30, 2008 (See Exhibit 1). As a consequence, during Fiscal Year 2009, University recipients will experience an increase in endowment distributions to support teaching, research and student aid. In Fiscal Year 2008, such distributions amounted to $1.6 billion, or more than four times the level of ten years ago (See Exhibit 2).

Exhibit 1

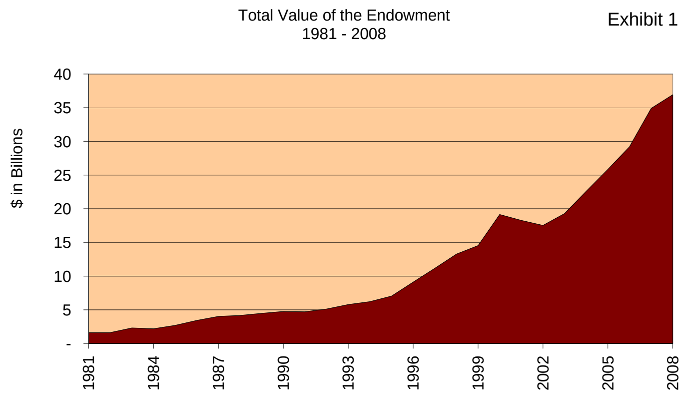
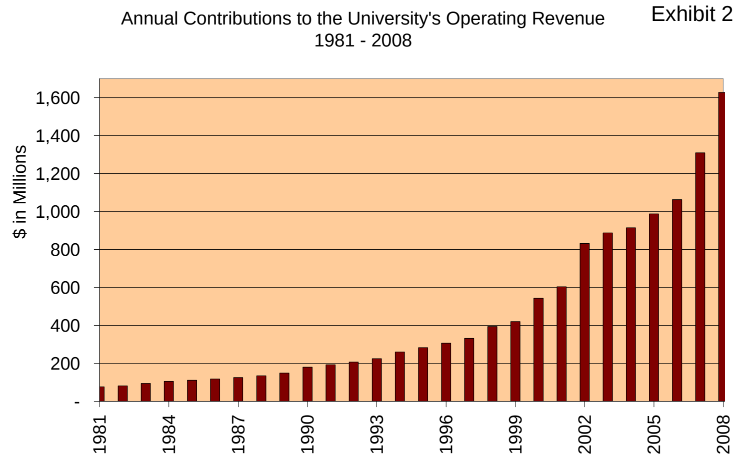


Exhibit 2



Fiscal Year 2008 Market Context

Fiscal Year 2008 was marked by periods of intense market turmoil highlighted by liquidity disruptions, severe dislocations in various financial markets (examples include residential mortgages, commercial paper, consumer loan markets, leveraged loan markets and municipal auction rate preferred markets) and emergency policy responses. The turmoil began with distress in the subprime mortgage market but ultimately spread to various markets globally. During this year, we witnessed the early to middle stages of a fundamental financial market de-leveraging.

As the fiscal year progressed, financial institutions continued to write-down assets and raise equity capital while the Federal Reserve took unprecedented actions to provide liquidity to this sector. In addition, commodity prices (particularly oil) posted sharp and sustained increases. As these events unfolded, banks/brokers continued to de-leverage and were increasingly reluctant to lend and use their balance sheets to take risk.

During this period, global central banks struggled to balance evidence of slowing economic growth with the prospect of increasing rates of inflation. Increases in commodity prices raised fears of future inflation and encouraged global central banks to refrain from lowering rates and, in some cases, actually begin to tighten monetary policy. As a result, we saw evidence of slowing economic growth in a number of non-US economies (including various emerging market economies).

In Fiscal Year 2009, we expect to see a continuation of the process of financial market de-leveraging. This process will likely create periods of disruption and market volatility.

Fiscal Year 2008 Performance

Our Fiscal Year 2008 investment return is consistent with Harvard's history of strong investment performance. Relative to the major US indices, the endowment out-paced the negative 13.1% registered by the S&P 500 Index in Fiscal Year 2008 and the 7.1% registered by the Lehman Aggregate Index (which is a broad measure of bond market performance). Traditionally, HMC has measured itself against the TUCS universe (Trust Universe Comparison Service) for peer comparison. In comparison with this measure, which incorporates available data on 165 large institutional investors, Fiscal Year 2008 performance exceeded the median return of negative 4.4%, as well as the top five percentile ranking of 3.2%.

Details of Fiscal Year 2008 performance are shown below. The column on the left shows Harvard's performance, net of fees and expenses, by asset class while the column on the right shows performance of the relevant benchmark for each asset class.

Fiscal Year 2008 Performance

	HMC	Benchmark
Domestic equity	-12.7 %	-13.1 %
Foreign equity	-12.1	-11.1
Emerging market equity	7.6	4.8
Private equity	9.3	6.3
Absolute return	0.1	1.8
High-yield	-8.3	0.7
Real assets (a)	35.8	33.0
Domestic bonds (b)	16.1	12.7
Foreign bonds	21.3	18.5
Inflation-indexed bonds	20.3	16.3
Total	***8.6 % (b)***	***6.9** % **(c)***
Median Fund		***-4.4** % **(d)***

(a) Real Assets consist of investments in liquid commodities (8% of Policy Portfolio), timber/agricultural land (9% of Policy Portfolio), and real estate (9% of Policy Portfolio)
(b) Performance includes market overlay strategies intended to serve as protection against extreme market events
(c) Policy Portfolio (See Appendix)
(d) Large-fund median performance measured by TUCS

Within the overall investment return, HMC's efforts to add value contributed 170 basis points. This translates into $612 million of additional value for the endowment. Overall market overlay strategies, intended to serve as protection against extreme market events (i.e., "tail" risks), contributed approximately 130 basis points to HMC's outperformance. In addition, HMC outperformed across the following asset classes: domestic and emerging market equity, private equity, liquid commodities, timber/agricultural land, real estate, and domestic, foreign and inflation-indexed bonds. HMC underperformed in foreign equity, high-yield, and absolute return investments.

HMC's value added efforts benefited from internal and external portfolio management's specific investment strategies, as well as top-down adjustments in overall positioning of the endowment. Specifically, the endowment's value was enhanced by:

- the outperformance of our internal portfolio management group;
- asset allocation adjustments driven by intra-year risk mitigation considerations as well as market overlay strategies intended to serve as protection against extreme market events; and
- the strong results delivered by a number of our long-standing and recently-added external managers.

Five Year Performance

Five-year performance (through Fiscal Year 2008) shown below indicates that HMC has outperformed the benchmark in all asset classes over the five-year period. The 8.0% average annual outperformance relative to the median fund easily places Harvard in the top five percent of all institutional funds.

Five-Year Performance - Annualized

	HMC		Benchmark	
Domestic equity	9.8 %		8.2 %	
Foreign equity	17.7		17.1	
Emerging market equity	31.3		30.2	
Private equity	23.6		19.9	
Absolute return	12.9		9.6	
High-yield	10.0		7.6	
Real assets (a)	24.8		15.8	
Domestic bonds (b)	12.5		4.4	
Foreign bonds	12.8		6.9	
Inflation-indexed bonds	7.0		6.2	
Total	***17.6*** %	***(b)***	***13.5*** %	***(c)***
Median Fund			***9.6*** %	***(d)***

(a) Real Assets consist of investments in liquid commodities, timber/agricultural land, and real estate
(b) Performance includes market overlay strategies intended to serve as protection against extreme market events
(c) Policy Portfolio (See Appendix)
(d) Large-fund median performance measured TUCS

Ten-Year Performance

Ten-year performance (through Fiscal Year 2008) is shown below. The ten-year return outperformed the Policy Portfolio by an annualized margin of 4.3%. The Harvard endowment outperformed the median institutional fund by an average of 7.7% per year over the ten-year period.

If Harvard had earned the median fund return (as measured by the TUCS index) over the past ten years, Harvard would have $23.5 billion less in endowment assets than it does currently.

Ten-Year Performance - Annualized

	HMC	Benchmark
Domestic equity	6.7 %	4.2 %
Foreign equity	8.7	6.1
Emerging market equity	18.5	17.2
Private equity	28.3	11.7
Absolute return	N/A	N/A
High-yield	7.5	3.9
Real assets (a)	16.7	12.6
Domestic bonds (b)	13.3	6.4
Foreign bonds	15.3	6.5
Inflation-indexed bonds	N/A	N/A
Total	***13.8* % *(b)***	***9.5* % *(c)***
Median Fund		***6.1* % *(d)***

(a) Real Assets consist of investments in liquid commodities, timber/agricultural land, and real estate
(b) Performance includes market overlay strategies intended to serve as protection against extreme market events
(c) Policy Portfolio (See Appendix)
(d) Large-fund median performance measured TUCS

The Institutional Context

Fiscal Year 2008 saw important institutional changes at HMC.

Mohamed El-Erian announced his intention to leave HMC in September 2007 and formally resigned as President and CEO at the beginning of December 2007. Mohamed led HMC since February 2006.

In early November 2007, Robert S. Kaplan (one of the undersigned), became Acting President and CEO of HMC. In addition to his duties at HMC, he is also a Professor of Management Practice at Harvard Business School and a former Vice Chairman of The Goldman Sachs Group, Inc. Rob led HMC until June 30, 2008 and will continue to be actively involved (working closely with Jane Mendillo) as part of an orderly transition over the next several months. Effective July 1, 2008, Rob joined the Board of Directors of HMC.

Effective July 1, 2008, Jane L. Mendillo (one of the undersigned) re-joined HMC to serve as President and CEO. Jane had served since February 2002 as the Chief Investment Officer of Wellesley College. Having spent nearly 15 years at HMC earlier in her career, Jane knows HMC's culture of excellence and professionalism, and she has a keen appreciation for the hybrid investment model that has been so critical to HMC's success.

During this period of transition, HMC has continued its efforts aimed at establishing conditions for sustaining superior investment returns, developing the organization and improving its working relationship with Harvard University. We would note the following specific initiatives:

- We have continued to recruit top talent from the investment industry that complements our existing strengths.
- We have expanded our risk management and compliance activities. In addition, we have strengthened our due diligence and monitoring efforts relating to all of our external managers.
- We have taken steps to encourage the investigation of investment ideas and themes across asset classes, particularly relating to areas that may not fit neatly into the traditional investment "silos".
- We have made connections to Harvard University researchers and professors who work in our field and related areas, to expand the exchange of ideas between HMC and the University.

The Road Ahead

In the attached Appendix, we detail changes to our Policy Portfolio for Fiscal Year 2009. In addition to the usual risk/return optimization methodologies, the changes reflect our secular themes which include:

- a need to think globally about our asset allocation and investment alternatives;
- issues relating to flow of funds, barriers to entry and other industry dynamics in the private equity and hedge fund asset classes;
- risk of continued longer term inflationary pressures - exacerbated by supply/demand considerations for various commodities; and
- our expectations for a continuation of the process of financial de-leveraging which began in the summer of 2007.

As we enter Fiscal Year 2009, many questions remain as to the likely depth, breadth, and duration of current market de-leveraging and associated disruptions. During these challenging times, we continue to emphasize the importance of HMC's hedging and risk management strategies. We are quite cognizant of the near-term risk of sub-par investment returns from many of the asset classes in which we and other investors participate. We are closely monitoring the deterioration in certain underlying debt and equity markets and the potential impact of these declines on the ultimate realizable value of investments in our private equity portfolio and on certain of the investments held by our hedge fund managers.

The last ten years have seen periods of extraordinary investment results. In light of recent market stress and dislocations, however, we are keenly aware that returns produced in the next few years may fall well short of these robust historical levels. We will continue to aggressively pursue our key investment strategies, as well as appropriate risk management, in order to help the endowment navigate these challenging market conditions. Even with this said our expectations for the endowment's returns in Fiscal Year 2009 and over the next several years are very cautious.

We look forward to continuing and deepening our dialogue with you. We greatly appreciate your continued support and commitment to Harvard. Please do not hesitate to contact us if you have any comments or questions.

Best regards,

Robert S. Kaplan

Robert S. Kaplan
Acting President and CEO
November 2007 through June 30, 2008
Board member effective July 1, 2008

Jane L. Mendillo

Jane L. Mendillo
President and CEO
Effective July 1, 2008

Appendix

The Policy Portfolio

The cornerstone for the management of the University's endowment is the Policy Portfolio. The Policy Portfolio is the long-term asset mix that is most likely to meet the University's return goals with the appropriate level of risk. It serves as the benchmark against which the performance of the actual portfolio is measured.

The Policy Portfolio was established in the spring of 1991 by the HMC Board after much research and discussion involving many parts of the University. Close attention was paid to payout requirements as balanced against the need to maintain the real value of the endowment and to keep risk within acceptable limits. Diversification among many asset classes was found to be a powerful tool for improving expected return-to-risk ratios. Hence, the studies included not only domestic stocks and bonds but also other types of assets such as foreign securities, private equities, real estate, and commodities. The Policy Portfolio is regularly reviewed and modifications are made periodically in light of experience and changing circumstances. For instance, in July 1999 the allocation to domestic equities was reduced, and a new asset class, inflation-indexed bonds, was established. Performance benchmarks for each asset class are set by the HMC Board. These benchmarks include broad indices for publicly traded securities (such as the S&P 500, the S&P 400, and the Russell 2000 for domestic equities) and broad samplings of funds for private securities. The components of the Fiscal Year 2008 and 2009 Policy Portfolios are shown below:

	Fiscal Year 2008	Fiscal Year 2009
Domestic Equity	12 %	11 %
Foreign Equity	12	11
Emerging Market Equity	10	11
Private Equity	11	13
Absolute Return	18	18
High-yield	1	2
Real Assets:		
Liquid Commodities	8	8
Timber/Agricultural Land	9	9
Real Estate	9	9
Domestic Bonds	5	4
Foreign Bonds	3	2
Inflation-indexed Bonds	7	5
Cash	-5	-3
Total	***100 %***	***100*** %

Two points about the Policy Portfolio are worth noting. First, it is a portfolio with an attractive expected return-to-risk ratio. It includes a higher allocation to foreign securities and commodities and a lower allocation to domestic equity and fixed-income assets than the typical institutional fund. Second, while performance will be measured against the Policy Portfolio, the actual asset mix in the portfolio may differ from the Policy Portfolio at any point in time. For instance, if domestic equities are perceived to be overvalued, the actual portfolio may hold only 9% in domestic equities compared with the 11% weight in the Policy Portfolio. If these tactical asset allocation decisions are correct on balance, the actual portfolio will tend to outperform the Policy Portfolio. Also, if HMC succeeds in outperforming the benchmarks for the individual asset classes, the actual portfolio will outperform.