

Rating Update: Howard Hughes Medical Institute, MD

MOODY'S AFFIRMS Aaa/VMIG1 RATING ON HOWARD HUGHES MEDICAL INSTITUTE'S SERIES 1990 AND 2003 BONDS; OUTLOOK REMAINS STABLE

THE INSTITUTE HAS \$576.5 MILLION OF RATED DEBT

Loudoun County Ind. Dev. Auth., VA
Not-for-Profit Organization
MD

Opinion

NEW YORK, Jan 5, 2007 -- Moody's Investors Service has affirmed the Aaa/VMIG1 rating on Howard Hughes Medical Institute's (HHMI) Series 1990 bonds issued through Montgomery County, Maryland and the Series 2003 bonds issued through Loudoun County, Virginia Industrial Development Authority. Both series are variable rate demand bonds which will be supported by HHMI's own liquidity when the Institute's \$250 million standby bond purchase agreement expires in February 2007. The Institute's rating outlook remains stable.

LEGAL SECURITY: Unsecured general obligation

DEBT-RELATED DERIVATIVES: HHMI has entered into five swap agreements for the rated debt with various counterparties to swap the majority of this debt from variable rate to fixed rates. We have incorporated any risks associated with these swap agreements into the Institute's long-term rating.

STRENGTHS

*Superior unrestricted financial resource base (\$16.1 billion in FY 2006) providing extremely strong support for debt and operations (unrestricted resources cover \$624.3 million of direct debt 25.8 times and cover operations 21.9 times). Unrestricted financial resources cover \$957 million of comprehensive debt (which includes capitalization of a large amount of operating leases for research space at host institutions) 16.8 times. Management reports plans to borrow approximately \$80 million over the next year in order to finance expansion of the administrative headquarters located in Chevy Chase, Maryland.

*Strong reputation as a medical research organization, with the Institute supporting over 300 principal investigators and distributing discretionary grants for science education and other special programs (over \$6.7 billion in scientific research spending and nearly \$1.5 billion in grants distributed since 1985). The Janelia Farm scientific research campus (financed with Series 2003 bond proceeds) opened in summer 2006.

*Operational flexibility derived from HHMI's ability to adjust the level of its expenditures and annual reviews of a segment of investigator appointments (investigators are not tenured and are subject to review every five years)

*Adequate support for variable rate demand bonds from internal liquidity sources, including over \$2.4 billion of U.S. Treasuries. The tender features of the Series 1990 and 2003 bonds are supported only by the Institute's self-liquidity, and HHMI plans to not renew its \$250 million Wachovia standby bond purchase agreement when it expires in February 2007.

CHALLENGES

*Heavy reliance on investment income as a proportion of HHMI's operating base (98.3% in FY 2006), requiring HHMI to maintain strong investment management, oversight, and continued strong investment returns. The endowment achieved a 15% annualized return in FY 2006, with an asset allocation including 34% in publicly-traded equities, 24% in fixed income securities, 22% in hedge funds, and 19% in private equity and venture capital. The Institute has earned an average annual return of 11.6% since 1986.

*Some variability of operating performance, by Moody's calculation, largely a result of total grant commitments being expensed and the liability being recorded in the fiscal year in which the grant

commitment is made in accordance with GAAP, while actual cash disbursements of grants are more consistent from year to year. Despite this expense volatility, HHMI has generated a 1.4% three-year average operating margin, with available cash flow covering annual debt service over 3.5 times. FY 2007 will be the first year of full operation of the Janelia Farm Research Campus which could place some additional pressure on operating performance, by Moody's calculation, as a result of start-up costs and planned budget growth.

Outlook

The stable outlook reflects our expectation that the Institute's unrestricted financial resource base will continue to provide an extremely strong cushion for debt and operations and that future borrowing plans will be manageable.

What could change the rating--UP

Not applicable

What could change the rating--DOWN

Significant deterioration of HHMI's financial resource base without HHMI taking steps to contain operating expenses

KEY DATA AND RATIOS (FY 2006 Financial Information):

Unrestricted Financial Resources: \$16.1 billion

Direct Debt: \$624.3 million

Unrestricted Financial Resources-to-Direct Debt: 25.8 times

Unrestricted Financial Resources-to-Operations: 21.9 times

Unrestricted Financial Resources-to-Comprehensive Debt (including capitalization of operating leases for research space at host institutions): 16.8 times

Three-Year Average Operating Margin: 1.4%

Reliance on Investment Income: 98.3%

RATED DEBT

Series 1990 and 2003: Aaa/VMIG1

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