Amherst College Endowment

A Framework for Bottom-Up Endowment Investing

At the Amherst College Endowment, our goal is to generate high real returns for the College over decades, while consistently providing support to the budget every year.

Our strategy is to invest our portfolio from the bottom-up, in a concentrated set of diverse, high quality partners. We do this by building deep relationships and an excellent reputation across our ecosystem, and by building independent, total-portfolio thinking on the team. Every investment in the portfolio – both the manager and the opportunity set - must compete with the rest of the portfolio on a long-term risk/ return basis. And, our portfolio balance must be sufficient to provide consistent support to the College each year (with a *hefty* assist from the smoothed spending rule).

This approach is an evolution from the original "endowment model" investment philosophy espoused by David Swensen, and adopted by endowments across the country, for the last 20+ years. One of the key components of our approach is the de-emphasis of traditional asset allocation in our portfolio management process (for reasons we've discussed in the past). For many endowments, target asset allocations - or a related form, like beta targets - are heavily relied on for risk management. So, how do we think about risk and portfolio management in the absence of a target asset allocation?

Our framework for bottom-up endowment investing has four key components: managers, opportunity sets, liquidity management & crisis planning, and exposures. Each of these components informs our decisions around partner selection and portfolio management (i.e., adds, trims, and sizing).

Managers Manager quality and conviction is the first and most important component of our portfolio and risk management process. Looking out over a decade plus, as we do, markets and opportunity sets will change substantially. We hope to partner with people that are building organizations and investment approaches that can thrive across generations and market environments. To assess, access, and build decades-long relationships with exceptional managers, we must be an exceptional partner.

Opportunity Sets All our managers invest in strategies that we believe have attractive long-term risk/return attributes and that therefore compete for capital on a risk-adjusted basis. We generally invest in managers across a spread of opportunity sets, but we are comfortable not being everywhere. Our approach tends to favor more generalist, flexible strategies, thereby outsourcing more tactical decision making to our managers. If there are large gaps in the portfolio, we will actively explore the opportunity to see if it deserves a place in our portfolio.

Liquidity Management & Crisis Planning Our liquidity management & crisis planning process is custom-built to support our bottom-up investment framework. It enables flexible investment decision making, while being able to meet liquidity needs in a variety of scenarios. Differentiating features of our model include a focus on uncalled capital, spending needs from the total portfolio, and the liquidity and risk profile of our public portfolio; we explicitly "ignore" private NAV. Crisis planning considers many potential stresses to the portfolio and College financial model, and involves collaboration across the College on issues like debt and enterprise liquidity, as well as raising awareness around how a crisis could impact the endowment is a key feature of our community building.

Exposures Portfolio exposures can vary significantly over time, and are a function of three main factors: our manager selection and sizing decisions, managers' investment decisions, and performance. Tracking exposures allows us to understand portfolio concentrations and manager overlap; understand performance drivers; set expectations around shorter-term outcomes; and answer specific, market-driven questions that typically arise in dislocations.