Annual Report 2023

Fiscal Year Ended
June 30, 2023

Amherst College

On the Cover

Front Cover:

The Norwottuck Rail Trail. Photo by Maria Stenzel.

Back Inside Cover:

Spring rainbow scenics. May 9, 2023.

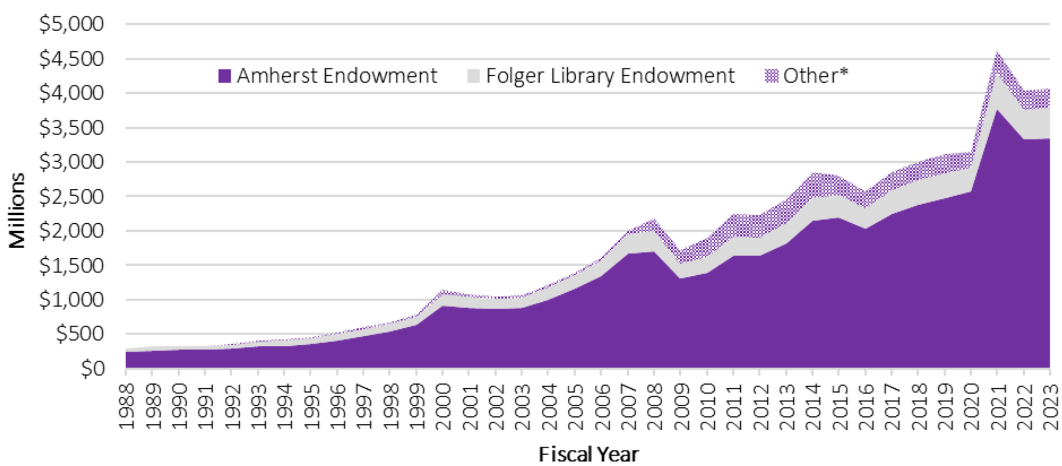
Photo by Haoran Tong '23.

Table of Contents

I. Introduction to the Long-Term Investment Pool

The Long-Term Investment Pool (LTIP) comprises the College Endowment, the Folger Shakespeare Memorial Library Endowment and other invested funds, including Annuities, Unitrusts, Plant Funds and other reserves. The Endowments consist of restricted and unrestricted endowment gifts, which are meant to last in perpetuity and support spending for scholarships, building improvements, faculty support and general use by the College.

Long-Term Investment Pool Growth



** Other assets include Annuities, Unitrusts, Current and Plant Funds invested in the consolidated investment pool for designated purposes*

**all returns in this report are net of all fees, expenses, and taxes.*

In total, the LTIP ended fiscal year 2023 at $4.06 billion, up $21 million year-over-year. Net withdrawals were $166 million for the year, and gifts were $16 million. Withdrawals include distributions for spending, liquidation of working capital reserves, trust terminations and payments to life fund beneficiaries. The College Endowment ended the year at $3.34 billion, and the Folger Shakespeare Memorial Library's endowment ended the year at $439 million.

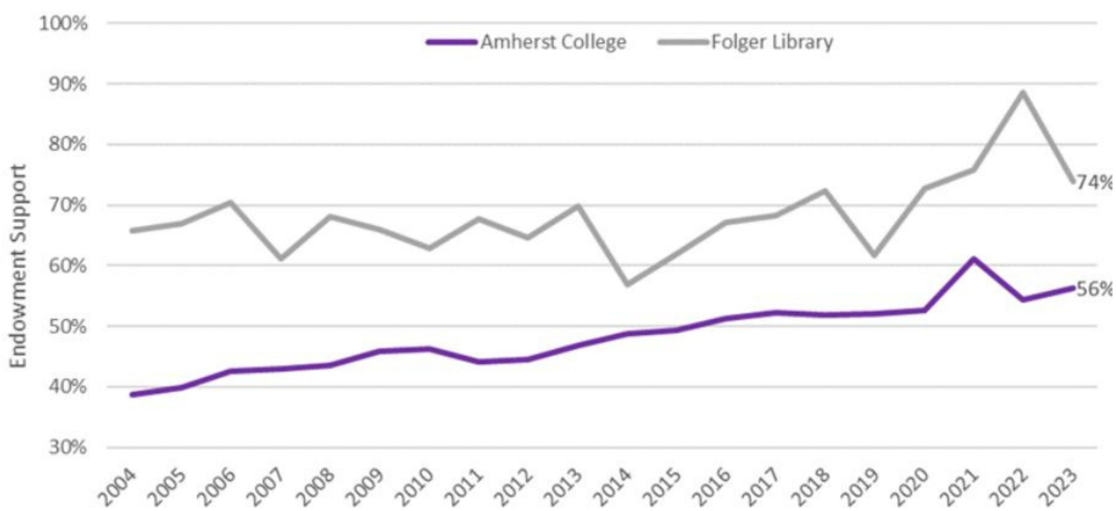
The LTIP returned +4.1% for the fiscal year. Five-year annualized returns sit at 10.3%, 10-year at 9.7% and 20-year at 9.9%, well ahead of our long-term objective to grow in excess of the draw plus inflation. Amherst College has great ambitions, and these must be supported by its endowment. This year, 56% of the College budget came from the endowment distribution. Although returns this year failed to keep up with spending plus inflation - the endowment's ultimate, long-term return objective - we are pleased to have produced some recovery after a difficult year in 2022. As discussed in last year's annual report, our banner year in 2021 (up 52%) "borrowed from the future", and we continued to feel its effects in 2023. We discuss performance drivers in more detail below.

As we stand today, despite myriad market, geopolitical and macroeconomic risks, we are confident in our ability to identify and partner with the most talented investors in the world. We expect our long-term returns from here to reflect this, and thereby provide the support the College needs from the endowment. The College's and Library's partnerships and steady hands at the tiller enable us to invest through good markets and bad, and we are extremely thankful to be shepherding these assets on behalf of both, whose missions continue to inspire.

II. Spending & Endowment Reliance

The LTIP today provides substantial operating support to both the College and the Library, with annual spending from the endowments this year contributing 56% and 74% of their budgets, respectively. For both, this represents the largest single source of revenue.

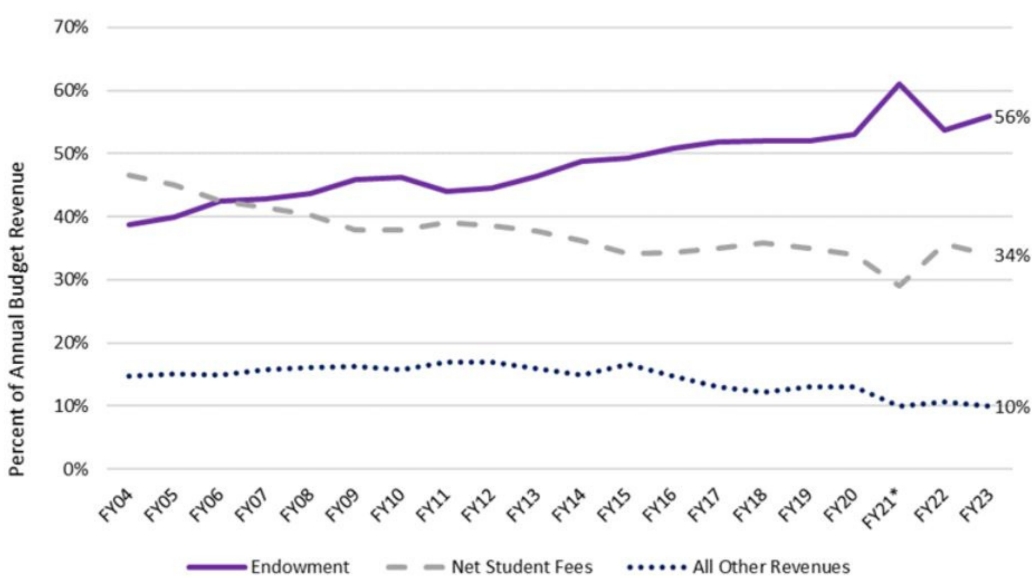
Budget Reliance on Endowment Spending (% of Annual Budget)



**Amherst's fiscal year 2021 distribution includes $12 million supplemental endowment distribution for COVID-related expenses. The Folger's distributed funds also cover large capital projects, sometimes in excess of $2 million per year.*

Spending has grown steadily, with the distribution rate ranging from 4.1% to 5.0% over the last decade. In fiscal year 2023, the endowment provided $136 million to the College and $17 million to the Folger Shakespeare Library, growing nearly fourfold over the last 20 years, from $34 million for Amherst and $7 million for the Folger in 2004. In the last decade in particular, a growing endowment has helped fund enhancements to the College's financial aid program, which in turn limited the growth of the College's second largest revenue stream (net comprehensive fees). The third key component of revenue for the College is gifts, and the College has benefited tremendously from the generosity of its donors. Our modeling suggests that endowment reliance will continue to increase; we embrace this financial model, but must manage it appropriately.

College Revenue Sources Over Time

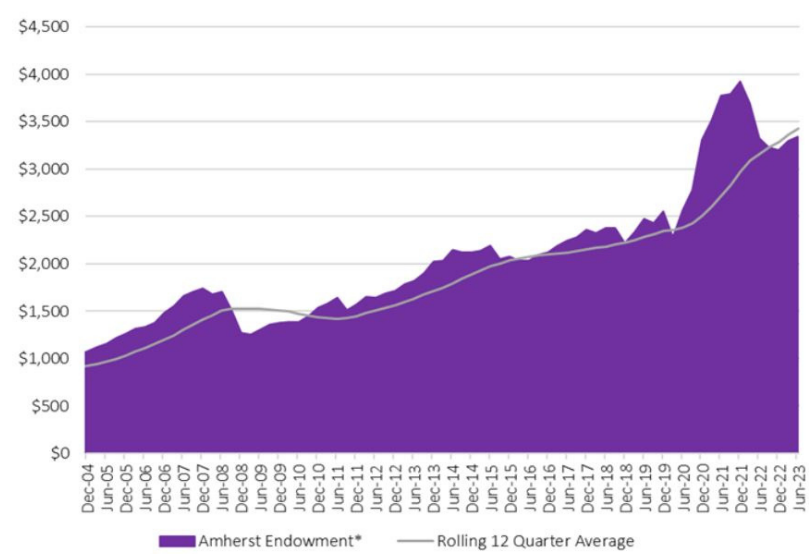


** Amherst's fiscal year 2021 distribution includes $12 million supplemental endowment distribution for COVID-related expenses.*

In order to manage the risk of sourcing substantial operating funds from a fully invested—and equity-oriented—endowment, the College has a spending rule that is designed to promote relative stability in the spending stream while still benefiting from asset growth over time. It combines a three-year smoothed historical endowment value (30%) with a modest increase (inflation) in last year's spending value (70%). The three-year smoothed endowment value enables the building of endowment values in good years, which are then "spent" during more volatile markets, as you can see when comparing the endowment value over time to the smoothed value.

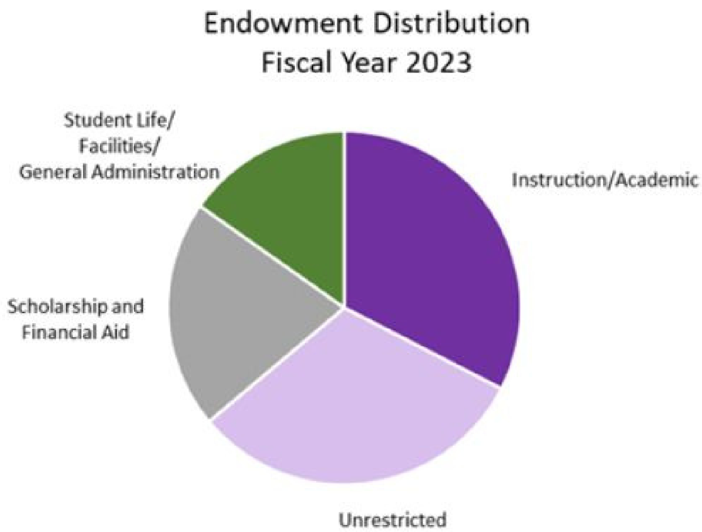
The last three fiscal years are an excellent example of how the spending formula works. In fiscal year 2022, spending from the endowment rose 6.0% relative to a 52.2% return on the endowment the year before (excluding the fiscal year 2021 $12 million supplemental endowment distribution for COVID-related expenses). In fiscal year 2023, spending from the endowment rose + 16.5%, despite a -10.0% return the year before. And in fiscal year 2024, spending will rise again, at a more muted 5.5%. The annualized increase in endowment spend over that three-year period is 9.3%, with no "down" years. This compares to a 9.2% annualized growth in the endowment (returns + gifts – spending) over that period, with a considerable "down" year in 2022, when the endowment value fell -10%. In other words: our smoothing policy dampens the impact of the markets on the draw, thereby shielding the operating budget from short-term equity volatility while allowing it to benefit from long-term equity growth over time.

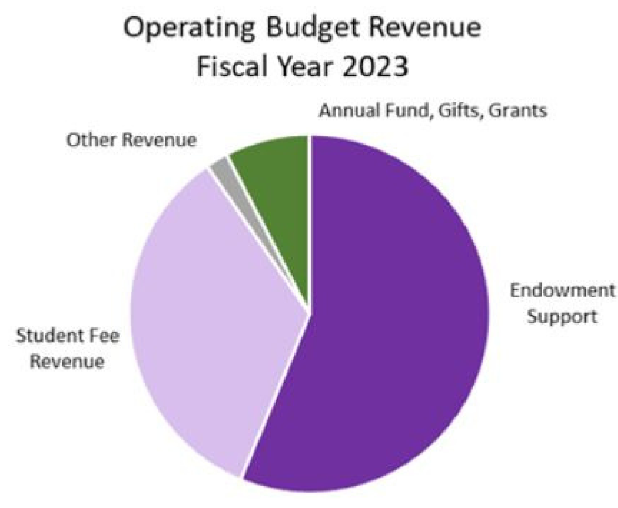
Amherst Endowment & the Smoothing Effect



Where do all of these monies go? As you can imagine, supporting over half of the operating budget means the endowment spending covers a large share of all of the College's efforts.

Amherst Endowment Distribution & Revenue Composition



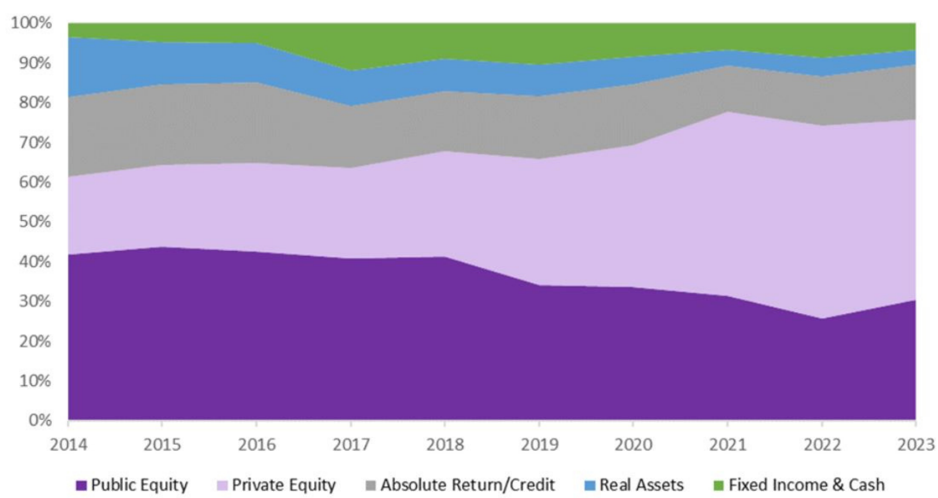


There are 1,808 individual endowment funds in the LTIP, and they cover an array of purposes, including support for scholarships, professorships, instruction, research and operations.

III. Investment Strategy

We seek to achieve our investment objectives by cultivating a long-term mindset, orienting to growth, and carefully managing position-level risk and liquidity. The cornerstone of our investment strategy is “partner first,” focusing on investing with excellent fund managers across asset classes and around the globe. We seek partners who share our long-term orientation, our growth objectives, and other key values such as diversity and sustainability. We seek balance in our partner lineup: while we are comfortable taking risk in the portfolio, we invest with managers that provide us with diverse return drivers. And finally, our strong preference is to concentrate our portfolio in a few key partners, growing our partnerships with managers as they become more and more productive.

Asset Allocation Over Time



Today, we have fewer than 40 active relationships across our portfolio, with over half the portfolio invested with managers we’ve partnered with for more than a decade, and over half managed by our top 10 relationships. We typically add one or two new partners a year, and we expect there will be years when we add no new partners; 2023 was such a year. Our bar for investment is extraordinarily high, as well as informed by our current portfolio and relationships.

Our asset allocation is a function of our “bottom-up” manager selection, combined with a desire to be broadly diversified across asset type, region and sector. We have liquidity and position-level risk models to help manage the endowment from the top-down. We develop an in-depth understanding of the risks we are taking with respect to security type, liquidity, company stage, sector, geography, valuation and business quality. This helps us understand how the portfolio will perform in different environments, and it gives us tools to help us think through position sizing and risk. Roughly half of our partners are invested in public markets, half in private, and less than half of the portfolio is invested outside the United States.

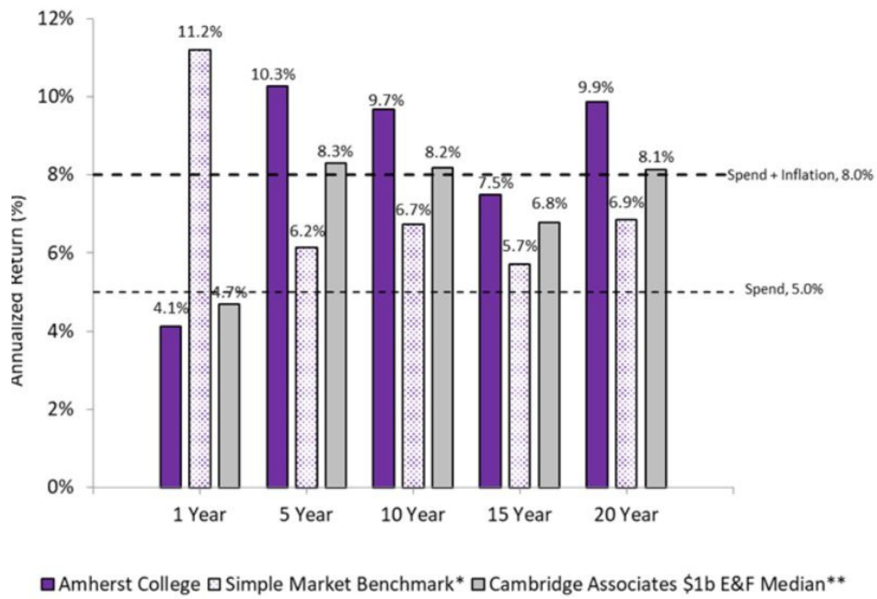
It should be noted that we do not mention asset allocation targets in this report. While we retain asset class ranges as a helpful tool for ensuring diversification and communicating the portfolio’s objectives, our ranges are quite broad. Today, we rely less on traditional asset class designations to determine manager or strategy sizing decisions. Instead, we first focus on the manager quality, and then—as discussed above—we conduct analysis on liquidity and position-level risk (e.g., analyzing our total equity allocation or our “look-through” exposure to late-stage venture—each of which we get across a number of “asset class” specialists). We want to invest with excellent managers in broadly diversified strategies, with the goal of generating high real returns.

IV: Performance

For fiscal year 2023, the LTIP returned +4.1%, bringing 10-year trailing compound returns to +9.7% and 20-year returns to +9.9%. These results have been delivered with approximately 61% of the volatility of the equity markets—10.4% versus 17.0% for equities—though it should be noted that any risk metrics around volatility aren't very helpful when the private markets are generally not as volatile as the underlying businesses.

It is helpful to put the LTIP's return this year in the context of the last several years. To briefly re-cap: following the shock of COVID-19 in early 2020, markets entered a period of exuberance, sending both private and public equities on a tear. We benefited from this across our equity portfolio, but particularly in our venture capital and growth equity investments. The portfolio returned +52.2% in fiscal year 2021, reflecting a significant "pull forward" of returns. In 2022, market enthusiasm was crushed by geopolitical stress, higher inflation, lower growth rates, and higher interest rates. Our public equity portfolio sold off significantly. Our private portfolio also suffered, but it was not marked down as much as publics due to private markets' intermittent valuation process. The endowment fell -10% in fiscal year 2022. Turning to this year: public markets rebounded as inflation mitigated, companies rolled off their "COVID bump" comps, and the pace of rate-hikes tempered. Our public equity portfolio this year participated in the rebound, rising in the high teens. However, our private portfolio did not, largely reflecting the fact that it wasn't marked down as much as publics in 2022. Privates were essentially flat for the year. Our total portfolio returned +4.1% in fiscal year 2023.

Long-Term Investment Pool Performance



**Beginning in fiscal year 2021, Amherst adopted a simple market benchmark which represents a blended benchmark of 70% MSCI All Country World Index and 30% Bloomberg U.S. Aggregate Index.*

*** Cambridge Associates median for endowments and foundations over $1 billion in assets. Consists of 161 institutions reporting returns to Cambridge Associates for one year, 161 institutions reporting for three years, 156 institutions reporting for five years, 149 institutions reporting for ten years, 137 institutions reporting for 15 years and 132 institutions reporting for twenty years.*

Critically, our liquidity and cash flow has remained strong. Net distributions from our private portfolio for the year stood at $54.8 million, and our policy is to sell all of our stock distributions upon receipt. Our cash and bond balances remain at a healthy 6.6%, and liquidity management is a central feature of our risk- and portfolio-management framework.

Putting it all together, performance this year is as expected. We are pleased with the performance of our public investments, and understand the drivers of our private investment performance. As always, we are excited to support our roster of partners. They are navigating these markets well, investing into dislocations, managing their organizations to thrive across a variety of market environments, and building businesses that will capitalize on the future to come. Ultimately, we are supporting and investing in a collection of talented, aligned, high integrity individuals that are building investment teams and processes to generate top-tier long-term returns. Performance in any single year will largely reflect market dynamics, but our long-term compound returns will reflect our choices with whom to partner. On this measure, we feel as confident in the portfolio as ever.

V: Community

The investment office is based in Boston, where we believe we can better execute on our mandate to generate top returns for the College – the city improves our ability to build manager relationships, source and network, and attract talent to the office. Our satellite location, however, underscores the need to forge a deep connection with the school. We hope the Investments office continues to be visible on campus, and we are available to students who have questions about the endowment. In addition, we are building community in a number of programmatic ways, and we outline several of these programs below.

Our summer intern program for rising juniors welcomes three students to the office each summer, to "shadow" the investment team and participate in the EMIF program – a fellowship across investment offices country-wide that introduces the group to "endowment management 101" and provides a network and wonderful learning community to our interns.

Our fall sustainability intern program is a joint effort between the investment office and the sustainability office. The intern is typically a sophomore who picks a project at the intersection of sustainability and investments, and is mentored both by the sustainability office and one of our investment officers.

We are launching a pilot program this year to recruit a senior for a full-time Analyst position upon graduation. This will be a 2-3 year position, wherein the Analyst will be a key member of the investment team. Over the course of the program they will get a fulsome introduction to the world of investments and the craft of endowment management. If it works well, we expect to have a couple of Analysts on staff on an ongoing basis, most of which we hope will populate the investment world and thereby increase the College's connectivity and impact… Which will be good for all of us!

We continue to engage with our managers on the topic of sustainability, the details of which can be found in our annual update posted on our website. As a reminder, in March 2021 we announced our decision to halt all new investments in fossil-fuel specialized funds and instructed our separately managed account managers to sell any current holdings (of which we had none) and no longer acquire direct investments in fossil fuel companies. It is still our expectation these investments will be out of the endowment by 2030. In addition, we vote our proxies in accordance with sustainability principles, in partnership with ISS.

We continue to work on incorporating the College's values around diversity into the management of the endowment. Our work here has been centered on two key themes: our team and the College, and our portfolio. Our work on our portfolio has been largely focused on collaborating with our long-term partners, many of whom have been developing recruiting and retention strategies to help build diverse talent. In these discussions, a key takeaway is the power of early exposure to investments, and we have been leveraging that insight in our work with the College, as outlined in our various programs above. We look forward to building these programs over time, and hope that our efforts to promote interest in investments and finance across the College will help broaden the field of talent that enters this world.

Amherst College

Product of Amherst College Endowment Office, 2023

Questions?
email: investments@amherst.edu
telephone: (857) 315–5880