The Amherst College Long-Term Investment Pool, or the “LTIP”, is comprised of the College endowment, the Folger Shakespeare Memorial Library endowment, and other invested funds. In total, the LTIP ended fiscal year 2020 at $3.150 billion, up $42.6 million year-over-year, driven by gifts of $41.8 million, investment returns of $201.9 million, and net withdrawals of $201.1 million, related to distributions for spending, liquidation of working capital reserves, trust terminations and payments to life fund beneficiaries. The College endowment ended the year at an all-time high of $2.565 billion and the Folger Shakespeare Memorial Library’s endowment ended the year at $355 million.

AMHERST COLLEGE AND FOLGER LIBRARY ENDOWMENT VALUES:

The LTIP today is managed by the Amherst College Investment Office, in partnership with the Investment Committee of the Board. Over time, the LTIP has benefited from the generosity of our donors, sound investment judgement, and careful financial stewardship at the institutional level. The LTIP’s ultimate objective is to generate the long-term returns needed to support the future endeavors of the College and Library in perpetuity, while simultaneously supporting the annual operating budget year-in and year-out. On the latter point, the LTIP today provides substantial operating support to both the College and the Library, with annual spending from the endowments contributing 53% and 73% of their budgets, respectively. For both, this represents the largest single source of revenue as well as the highest contribution in Amherst’s history.

Operating Support
In order to manage the risk of sourcing substantial operating funds from a fully invested endowment, the College has a spending rule that is designed to have relative stability while still benefiting from LTIP growth over time. It combines a 3-year smoothed historical endowment value (30%) as well as a modest increase in last year’s spending value (70%). This enables the budget to be managed with some certainty from year-to-year, thereby allowing the investment portfolio to take the risk it needs to generate high real returns. Spending has grown steadily over time, and the Amherst College distribution rate has ranged between 4.1% and 4.7% between FY10-20.
Achieving our investment objectives requires a long-term mindset and growth orientation, paired with careful management of liquidity. Our long-term growth objective means that we invest heavily in equity and equity-oriented managers, across public and private markets. Beyond our equity orientation, the cornerstone of our investment strategy is “partner first”, focusing on investing with the best fund managers across asset classes and the globe. We seek partners that share our values, are aligned with our objectives, and have the potential to create significant value for the endowment 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 over a decade. Our asset allocation is therefore an expression of our “bottom-up” manager selection, combined with a desire to be broadly diversified across asset type, region, and sector.

Our public equity investments include “generalists” that invest globally, as well as specialists that invest in a specific sector or region (e.g., Asia). Our private equity investments are primarily comprised of venture capital and “growth equity” investments, wherein the innovation economy, technology, and new company formation are the driver of returns. Roughly half of our partners are invested in public markets, half in private; 40% of the portfolio is invested outside the U.S.

For the year, the LTIP posted a +6.6% return, bringing 10-year trailing compound returns to +9.2% and 20-year returns to +8.0%.
Beginning January 1, 2005, Amherst adopted a strategic policy benchmark which is a weighted average return derived by applying the target strategic policy portfolio weights of each asset class to the performance of the respective asset class benchmarks. Periodically, the strategic policy benchmark weights and indices are changed to reflect the new policy portfolio and benchmarks approved by the Investment Committee.

These results have been delivered with approximately half the volatility of the equity markets (9% versus 18% for equities), and are the function of strong manager performance and broad strategy and asset class diversification. The LTIP’s +6.6% return for fiscal year 2020 was driven by technology, high growth, and venture capital companies, which have fared relatively well in this challenged economic environment. In the fall of 2019, we had conducted a “crisis planning” exercise, which was immediately tested during spring of 2020 (and ongoing). Despite a meaningful decline in the endowment in the spring due to COVID-driven market volatility, the markets and our funds regained their footing and rebounded, more than making up for the losses in March and April.

Looking ahead, we continue the painstaking work of investing in our manager relationships, combing the investment landscape for great new partners, maintaining an appropriately balanced portfolio, and staying vigilant around liquidity management. We are actively exploring the question of how to incorporate the College’s values around diversity, equity, and inclusion into our investment process. And, we continue to engage with our managers on the topic of sustainability. As the College continues its Promise campaign, both the Investment Committee and the staff are grateful for the tremendous support of the Amherst community.