Annual Report 2021

Fiscal Year Ended
June 30, 2021

Amherst College

On the Cover

Front Cover:

Students returned to classes in the Science Center on October 16, 2019 after the fall break (Columbus Day weekend). Photo by Maria Stenzel.

Back inside Cover:

Sunrise of the war memorial looking towards hills in mist on a fall day. Photo by Maria Stenzel.

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A Letter from the Chief Investment Officer

The endowment posted its best year of performance ever in 2021, returning 52.2%, bringing the total Long-Term Investment Pool to $4.63 billion. Ten-year annualized returns sit at 11.9%, and 20-year at 10.5%. This performance was achieved against the jarring backdrop of a global pandemic—and the havoc it continues to wreak on society and the global economy—and breathtaking capital market exuberance. While we are incredibly grateful to our investment partners for the contributions they have made to the endowment over many years, we recognize a few key points around this year in particular:

First, there is much painstaking work to do to get the global economy and population on surer footing as the pandemic lingers. Second, some of these gains may not hold over the short term, and we expect some will be "given back," as downside market volatility often follows periods of extreme optimism. Third, the bedrock of our investment approach is a long-term, equity-oriented portfolio paired with steady, typically increasing annual spending from the endowment. This is achieved by way of our smoothed spending rule, so that the College can continue to do its important work year-in and year-out without the vagaries of the capital markets whipsawing annual budgets.

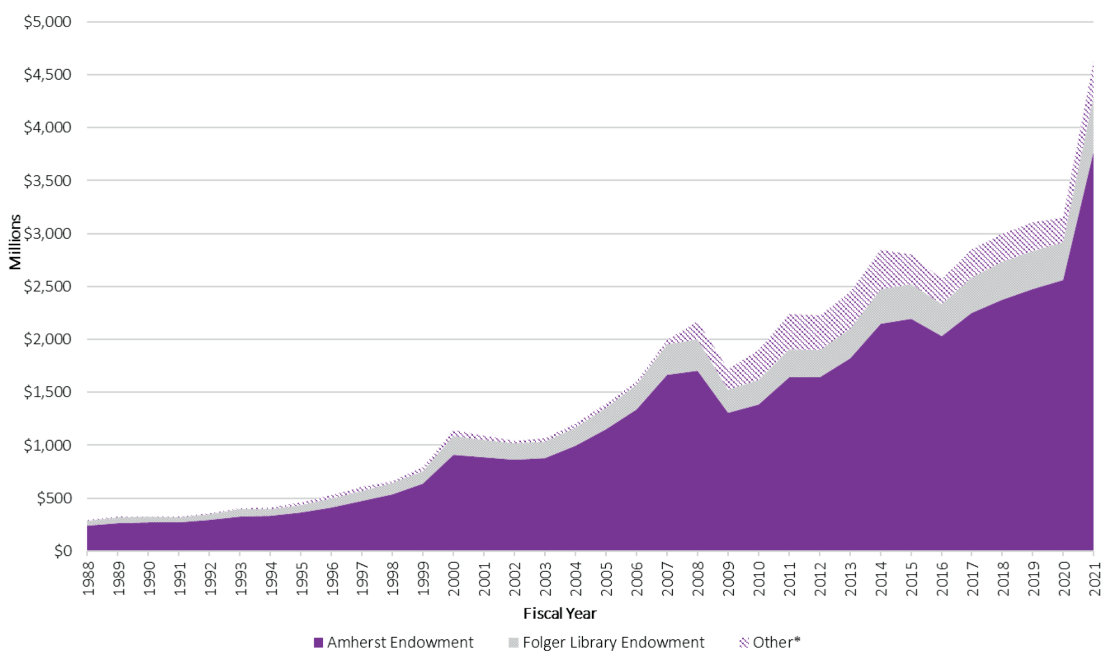
Finally, and most importantly, we are extremely thankful to be shepherding these assets on behalf of the College and the Folger Shakespeare Library, whose missions continue to inspire. Spending in fiscal year 2021 topped out at $122.3 million for the College, and these funds supported over 60% of the annual budget, including financial aid, faculty appointments, instruction/academic support and one-time COVID-19-related expenditures. Endowment reliance this year hit an all-time high; with the mitigation of COVID-19-related expenses next year, we expect it will drop back into the mid-50s in fiscal year 2022.

Letitia Johnson

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. Other invested funds include, but are not limited to, 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*

In total, the LTIP ended fiscal year 2021 at $4.63 billion, up $1.48 billion year-over-year, driven by gifts of $23.1 million, investment returns of $1.62 billion and net withdrawals of $157.8 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 an all-time high of $3.78 billion, and the Folger Shakespeare Memorial Library's endowment also ended the year at an all-time high of $525 million.

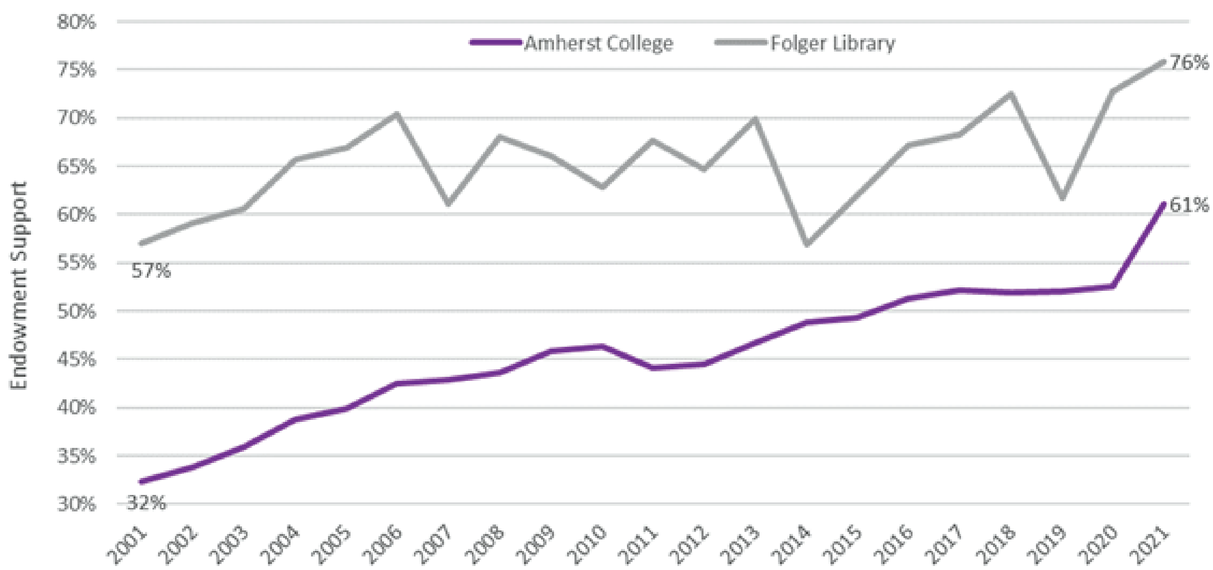
The LTIP today is managed by the Amherst College Investment Office, in partnership with the Investment Committee of the Amherst College Board of Trustees. Over time, the LTIP has benefited from the generosity of our donors, sound investment judgement and careful financial stewardship at the institutional 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. This is referred to as "intergenerational equity": making our best efforts to support both the current and the future generations of the College. In practice, this means producing returns over long periods of time that keep up with inflation (~3% budget growth per annum) and spending (~5% per annum).

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 61% (including COVID-19 expenses) and 76% of their budgets, respectively. For both, this represents the largest single source of revenue as well as the highest level of endowment support in their histories.

Budget Reliance on Endowment Spending (% of Annual Budget)

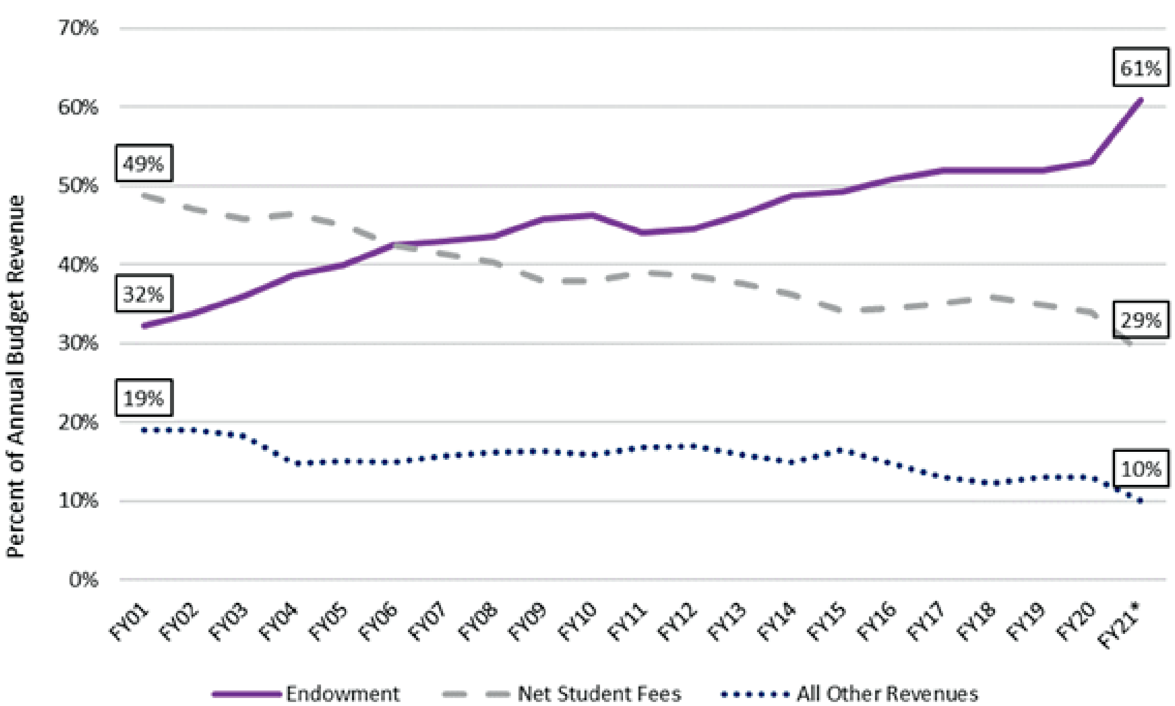


**Amherst's fiscal year 2021 distribution includes $12 million supplemental endowment distribution for COVID-related expenses. The Folger's distributed funds also cover large capital projects, sometimes in excess of $2 million per year.*

Spending has grown steadily, with the distribution rate ranging from 4.4% to 5.0% over the last decade. In fiscal year 2021, the endowment provided $122.3 million to the College and $14.7 million to the Folger Shakespeare Library. The extent to which endowment spending supports the operating budgets has grown more than fourfold over the last 20 years, from $25.7 million for Amherst and $5.1 million for the Folger in 2001.

In the case of the College, our modeling suggests that endowment reliance will continue to increase as, and if, it outpaces other forms of revenue growth, as it has over the last decade. High endowment reliance is both a gift and a burden for the College's financial model. After all, we are able to derive these economic benefits from the endowment because it is so big! The endowment gives the College the financial strength to offer generous financial aid—which then brings the second-largest revenue stream (tuition) down more. The third key component of revenue for the College is gifts, and the College has benefited tremendously from the generosity of its donors.

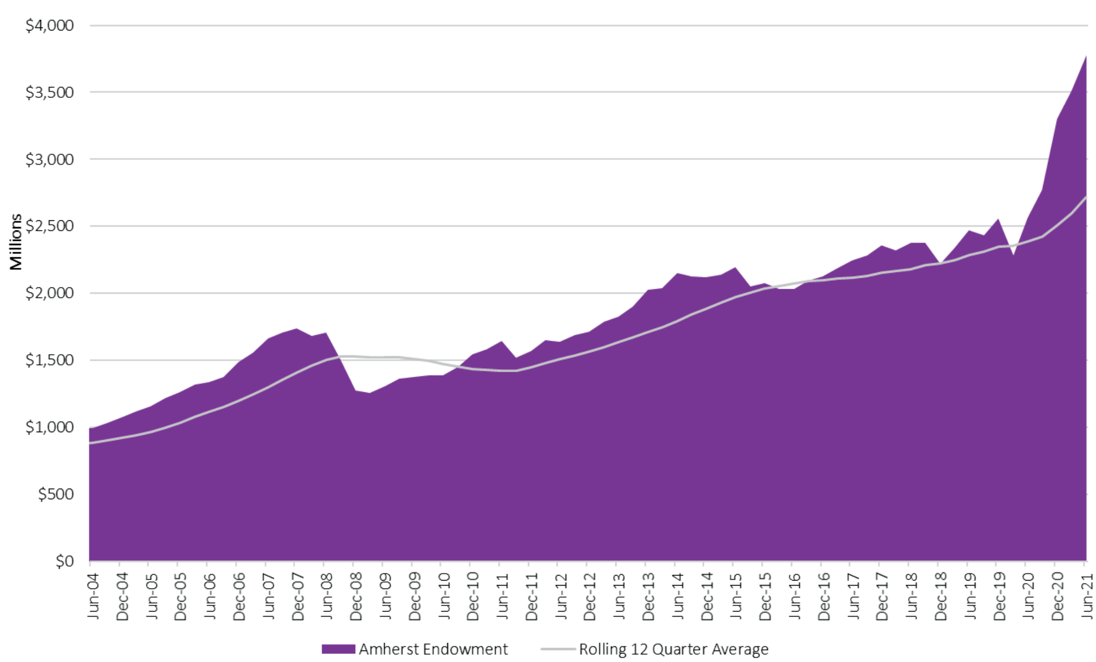
College Revenue Sources Over Time



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

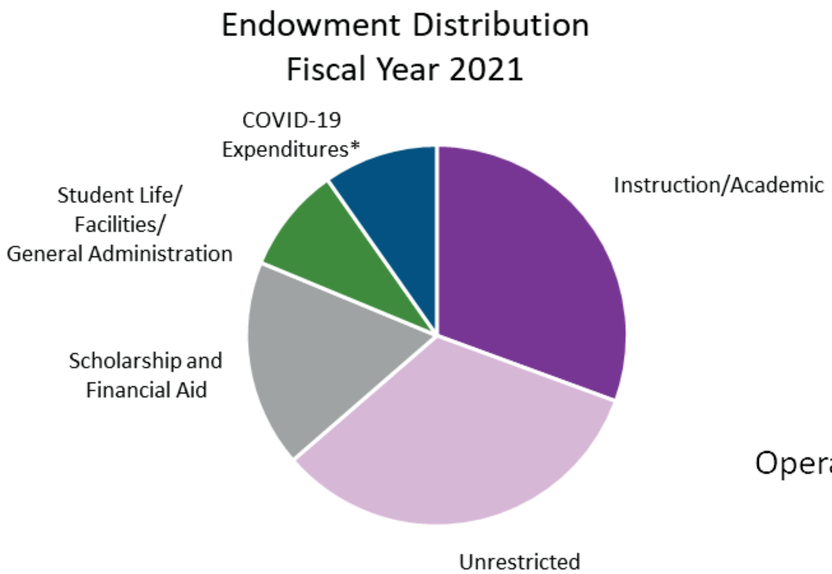
In order to manage the risk of sourcing substantial operating funds from a fully invested—and equity-oriented—endowment, the College has a spending rule that is designed to promote relative stability in the spending stream while still benefiting from asset growth over time. It combines a three-year smoothed 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.

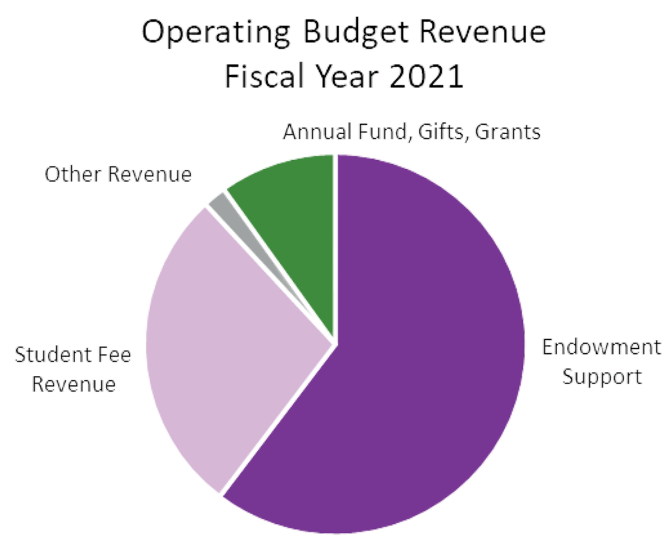
Amherst Endowment & the Smoothing Effect



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





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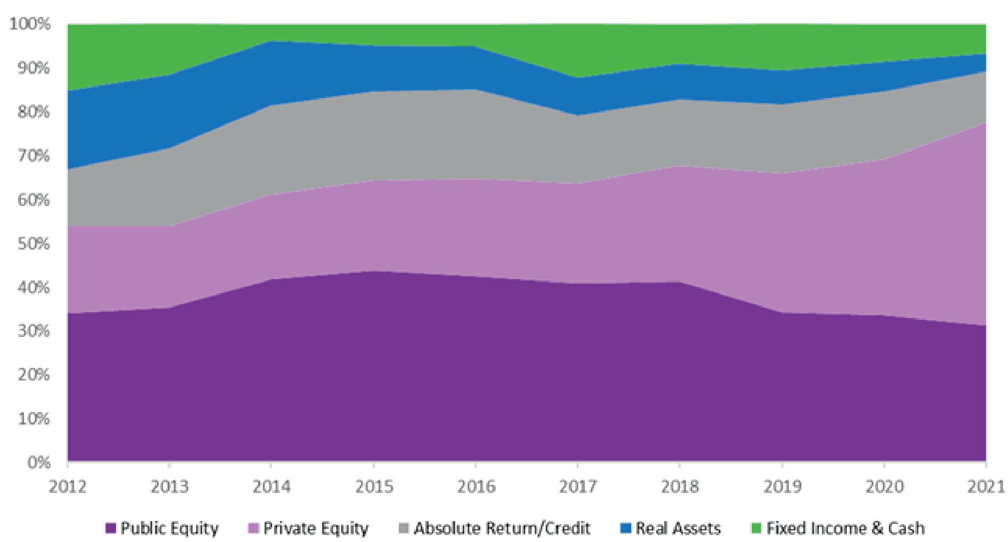
There are 1,529 individual endowment funds in the LTIP, and they cover an array of purposes, including support for scholarships, professorships, instruction, research and operations.

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 have a few guiding principles that help us pick partners. [KD1] We seek partners who share our long-term orientation, our growth objectives, and other key values like diversity and sustainability. We seek balance in our partner lineup: while we are comfortable taking equity risks in the portfolio, we prefer to have managers who make money in different ways within in the equity markets. And finally, our strong preference is to concentrate our portfolio in a few key partners, growing our partnership with managers as they drive returns. 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, and over half the portfolio 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; our bar for investment is extraordinarily high and unique to our current portfolio and relationships.

Asset Allocation Over Time



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 public/private, venture/growth, 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.

Our public equity investments include "generalists" that invest globally, as well as specialists that invest in a specific sector or region. Our private equity investments primarily consist of venture capital and expansion capital investments, wherein the innovation economy, technology and new company formation are the drivers of returns. Roughly half of our partners are invested in public markets, half in private, and half of the portfolio is invested outside the United States.

The close observer will note that we do not mention asset allocation targets in this report. While we retain asset class ranges as a helpful tool for communicating the portfolio's objectives, our ranges are extremely broad. Today, we rely much 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 portfolio-level 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. For some time now, the bulk of the risk in this portfolio has been equity risk—and we are comfortable with this, in order to generate the returns we need. Within equities, we are mindful of balance, while still holding the highest bar with regards to partner quality and long-term real returns. We expect the portfolio's position will shift over time, and we look forward to updating you on its evolution.

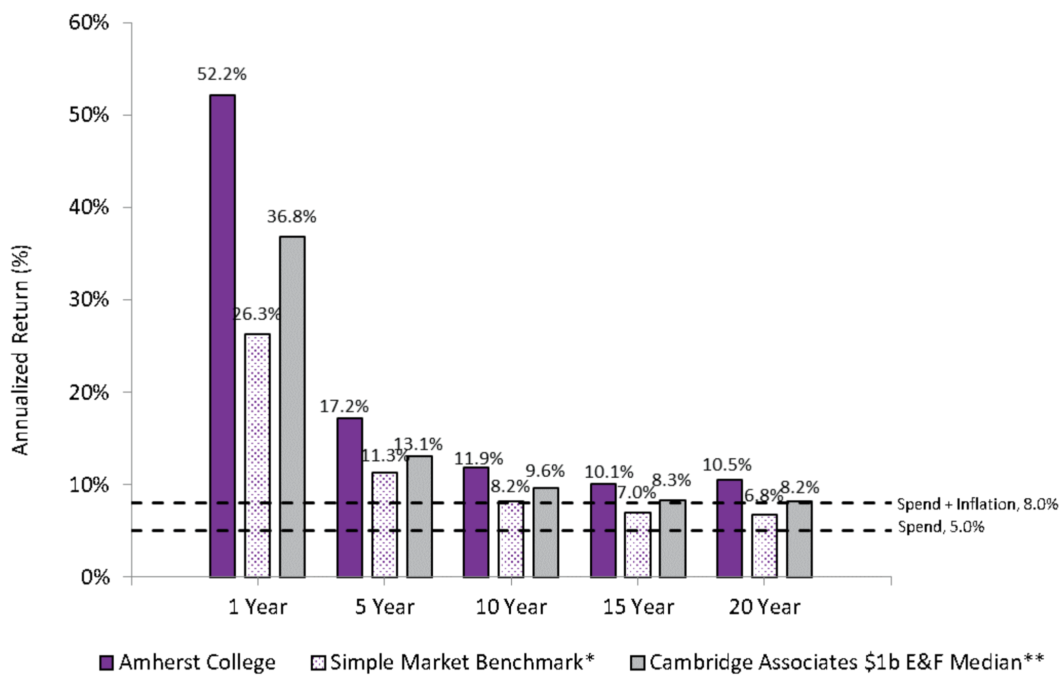
IV: Social Impact: DEI & Sustainability

We are actively working on incorporating the College's values around diversity, equity and inclusion (DEI) into our investment process, and we continue to engage with our managers on the topic of sustainability, the details of which can be found on our website. On DEI, our work has been centered on three key themes: our team[KD1] , the College and our portfolio. We will continue to have DEI front-of-mind in development, retention and any new recruiting on our team. At the College, we have been working on our intern program, as well as partnership opportunities with the Loeb Center for Career Exploration and Planning, to promote careers in investment and finance to a diverse group of students. And finally, we have been having conversations with our partners about their approach to DEI. We look forward to updating you periodically on our efforts here.

V. Performance

For fiscal year 2021, the LTIP posted a +52.2% return, bringing 10-year trailing compound returns to +11.9% and 20-year returns to +10.5%. These results have been delivered with approximately half the volatility of the equity markets10% versus 18% for equities— though it should be noted that any risk metrics around volatility aren't very helpful when half the portfolio is marked only quarterly and the private marks are generally not as volatile as the underlying businesses.

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 nontaxable funds over $1 billion in assets. Consists of 159 institutions reporting returns to Cambridge Associates for one year, 154 institutions reporting for five years, 145 institutions reporting for 10 years, 133 institutions reporting for 15 years and 125 institutions reporting for 20 years.*

The LTIP's +52.2% return for fiscal year 2021 was driven by strong performance across the board, including technology, high growth, venture capital, private equity and U.S. equities. These outstanding results stemmed in part from themes that have been carried over since the beginning of COVID-19: remote work, enterprise tech adoption, continued e-commerce adoption, and a breathtaking acceleration in the market's appetite for new technology companies and "disruptors." Although some of these gains are mark-to-market write-ups in our private portfolio, net distributions from our private portfolio for the year stood at $124 million, and our policy is to sell all of our stock distributions upon receipt. While we are incredibly grateful to our partners for this performance, we recognize that these gains are likely to have some kind of "giveback" and are planning accordingly. Our liquidity position is healthy, and we run a variety of stress tests that help us plan for market volatility.


PRO PATRIA

Amherst College

Product of Amherst College Endowment Office, 2022
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