Annual Report 2022

Fiscal Year Ended
June 30, 2022

Amherst College

On the Cover

Front Cover:

Mammoth Meet-Up. Photo by Maria Stenzel.

Back Inside Cover:

Wildflowers. The fields of Book and Plow Farm, near the campus. Detail shots of red clover and dandelions. Photo by Maria Stenzel.

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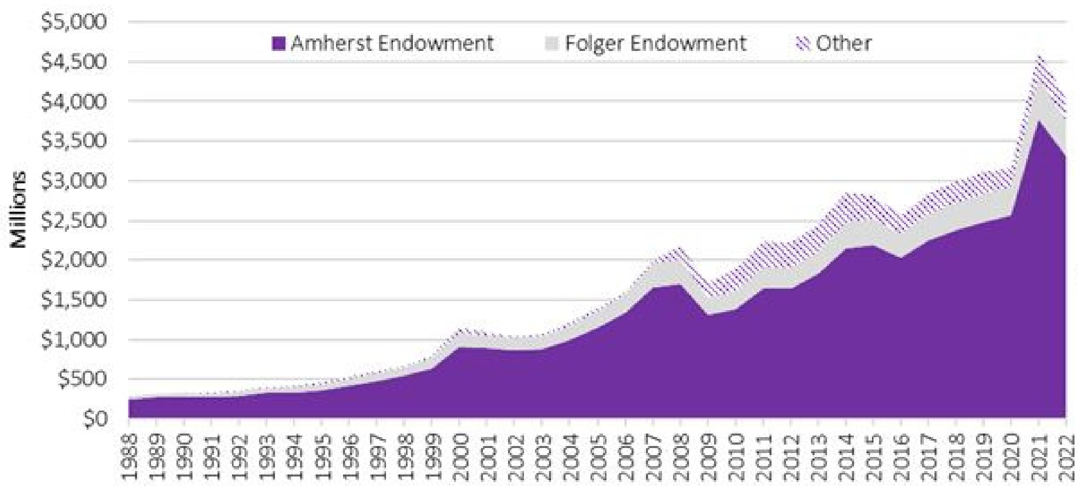
I. Introduction to the Long-Term Investment Pool

The Long-Term Investment Pool (LTIP) comprises the College Endowment, the Folger Shakespeare Memorial Library endowment and other invested funds like 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*

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In total, the LTIP ended fiscal year 2022 at $4.04 billion, down $592.76 million year-over-year. Net withdrawals were $172.6 million for the year, and gifts were $27.8 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 $3.32 billion, and the Folger Shakespeare Memorial Library's endowment ended the year at $437 million.

The LTIP had a difficult 2022, returning -10.0% for the fiscal year*. Five-year annualized returns sit at 11.5%, 10-year at 10.6% and 20-year at 10.0%, 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, 54% of the College budget came from the endowment distribution. We are resolute in our mission to meet our long-term return objectives. In hindsight, our banner year last year (up 52%) "borrowed from the future." 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.

As followers of the financial markets are well aware, markets have been volatile. Unsurprisingly, our partners with the largest gains last year were among our largest losses this year. We discuss performance drivers in more detail below, but the overarching message is that while we are disappointed to be down, we retain firm conviction in our concentrated set of long-term partners. The opportunities our partners are seeing today are some of the most interesting they have seen in many years. In our last letter, we anticipated that our investment approach would be tested in tougher times—those times have arrived. 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.

It is years like this—particularly on the heels of last year—that demonstrate the power and benefits of the school's spending policy. Our intent is to spend between 3.5% and 5% of the endowment each year, with the specific spending amount determined by a smoothing formula. This smoothing formula means that returns are incorporated into

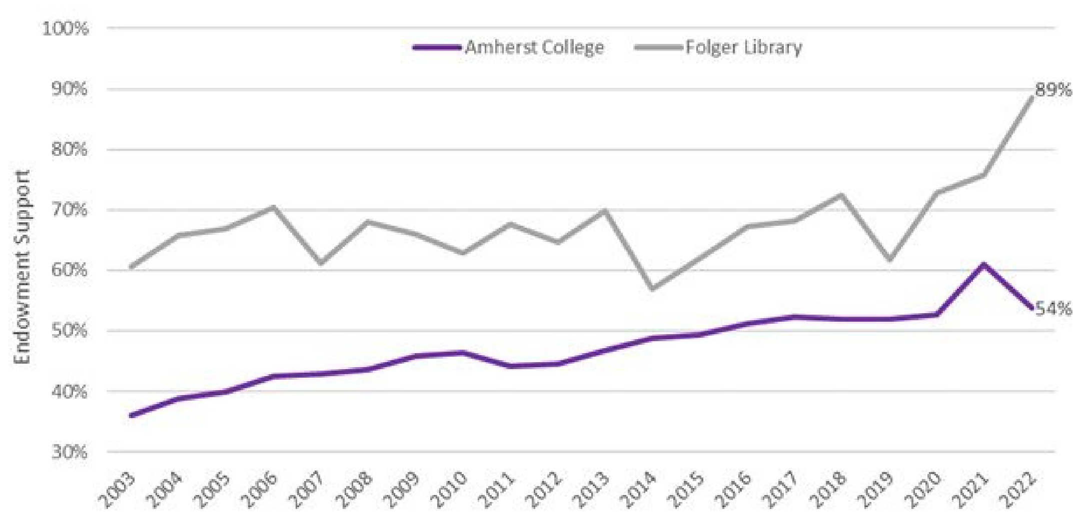
**all returns in this report are net of all fees, expenses, and taxes.*

spending over time. While our spending was up last year, it wasn't up 50%; similarly, though our endowment is down this year, spending has continued to rise, as 2021 "flows into" our smoothed policy. Spending in fiscal year 2022 was $118.5 million for the College and $15.4 million for the Library.

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 54% and 89% of their budgets, respectively. For both, this represents the largest single source of revenue.

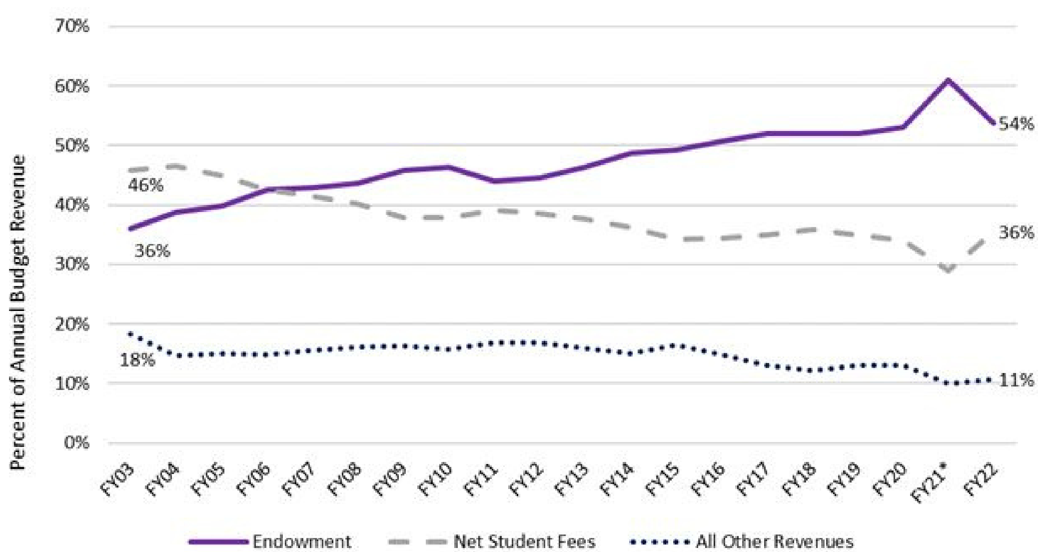
Budget Reliance on Endowment Spending (% of Annual Budget)



**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 2022, the endowment provided $118.5 million to the College and $15.4 million to the Folger Shakespeare Library, growing nearly fourfold over the last 20 years, from $31.0 million for Amherst and $6.2 million for the Folger in 2003. In the last decade in particular, a growing endowment has given the College the financial strength to offer generous financial aid, which in turn 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. 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

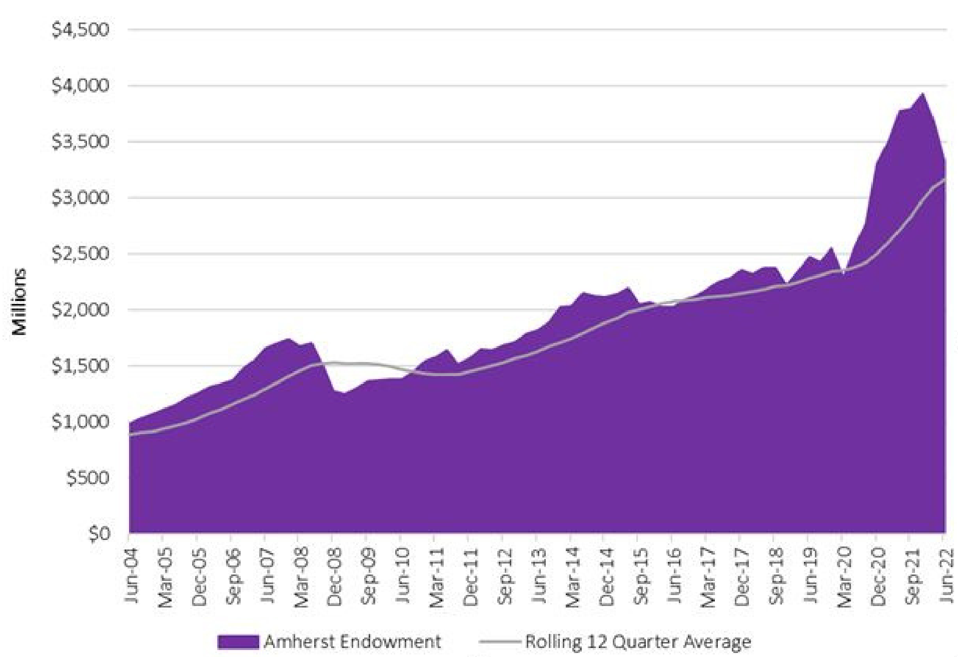


** Amherst's fiscal year 2021 distribution includes $12 million supplemental endowment distribution for COVID-related expenses.*

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.

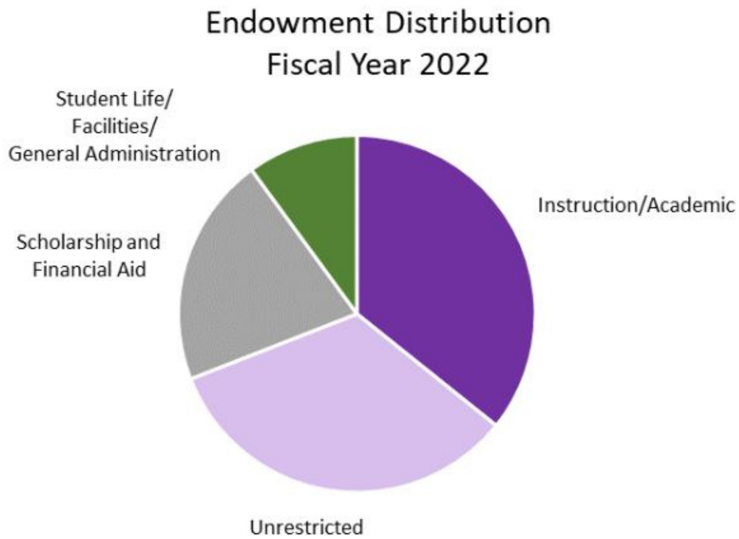
The transition from 2021 to 2022 is an excellent example of how the spending formula works. In fiscal year 2022, spending from the endowment rose 6.0% relative to a 52.2% return on the endowment the year before (excluding the fiscal year 2021 $12 million supplemental endowment distribution for COVID-related expenses). In fiscal year 2023, spending from the endowment will again rise, at 16.5%, relative to a -10.0% return the year before, before returning to a more muted 5.6% the following year. 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.

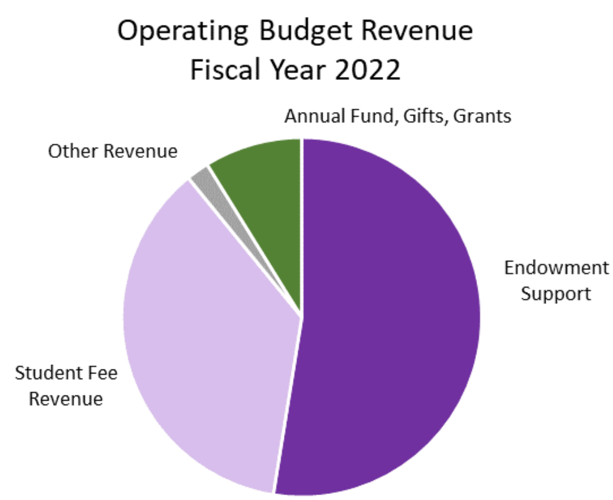
Amherst Endowment & the Smoothing Effect



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



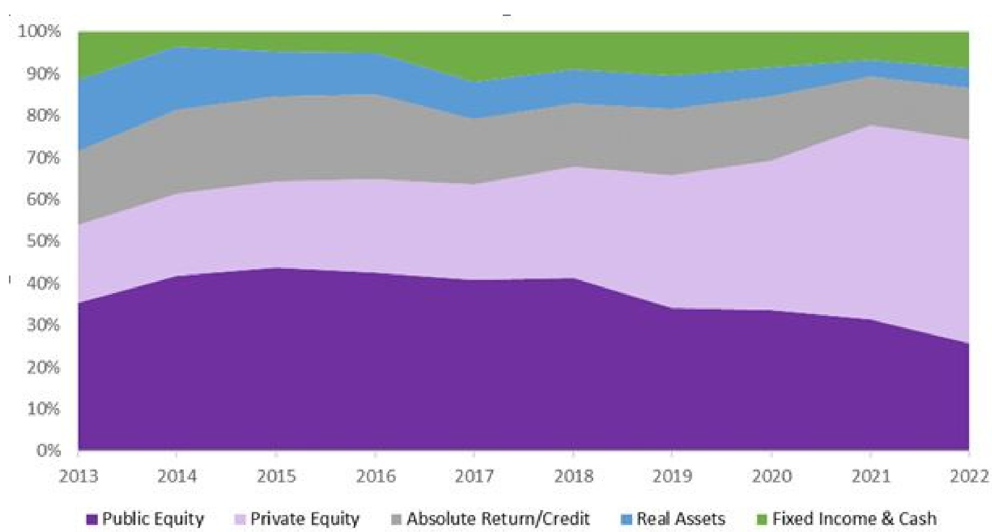


There are 1,795 individual endowment funds in the LTIP, and they cover an array of purposes, including support for scholarships, professorships, instruction, research and operations.

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. 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 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 partnerships with managers as they drive returns.

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; our bar for investment is extraordinarily high and unique to 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 stocks/bonds, 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. Roughly half of our partners are invested in public markets, half in private, and 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 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 to shift over time, and we look forward to updating you on its evolution.

IV: Social Impact: DEI & Sustainability

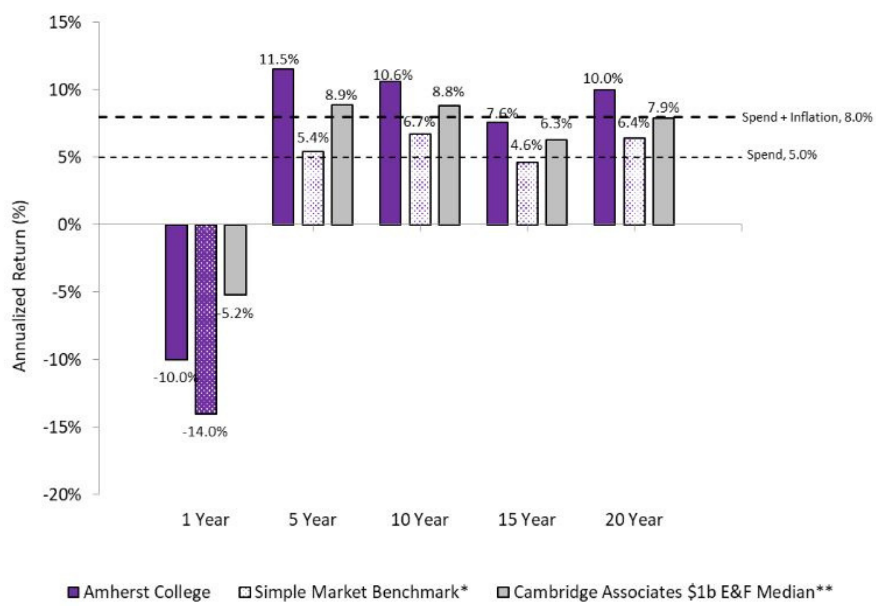
We continue to engage with our managers on the topic of sustainability, the details of which can be found in our annual update posted on our website. As a reminder, in March 2021 we announced our decision to halt all new investments in fossil-fuel specialized funds and instructed our separately managed 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 are actively working on incorporating the College's values around diversity, equity and inclusion (DEI) 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 spending a lot of time on recruiting and developing diverse talent. In these discussions, a key takeaway is the power of early exposure to investments, and we have been leveraging that insight on our team. In 2021, we launched our summer intern program, selecting three rising juniors from the College to join our team for an eight-week internship, and last summer we welcomed our second class of summer interns, this time in person. We look forward to building this program 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.

V. Performance

For fiscal year 2022, the LTIP returned -10.0%, bringing 10-year trailing compound returns to +10.6% and 20-year returns to +10.0%. These results have been delivered with approximately 60% of the volatility of the equity markets—11% versus 18% 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.

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 return this year was driven by similar forces as last year, but in reverse. Market exuberance in 2021 quickly transitioned to market turbulence in 2022 as inflation proved more persistent than expected, rates rose, supply chain issues continued to plague businesses, China's growth stalled due to COVID measures, and Russia's invasion of Ukraine resulted in a terrible loss of life and cast a shadow over Europe and the global economy. Stock and bond markets have reacted accordingly and, in some areas, are down significantly. Although our portfolio is well diversified across securities, sectors and geographies, we are primarily investing in businesses, where valuation and fundamentals are impacted by the global economy. Many of our partners focus on high-quality businesses managed by high-quality people who can adapt to changing environments. Last year, these businesses traded dearly, with ample investor appetite driving high valuations. Our return this year largely reflects a normalization in investor enthusiasm, as well as lower levels of valuation driven by rising rates. In some cases, business fundamentals have deteriorated; but in many cases, fundamentals remain fairly strong, and it's simply the price that's declined.

From here, there is good and bad news. The bad news is that fundamentals could very well get worse, which would likely usher in new lows in the markets. The good news is that these high-quality businesses should be relatively well positioned for economic turbulence. Higher-quality businesses are generally less levered, they can pass through cost inflation, and their management teams have skill in navigating difficult times. This is not to say that the difficult times are over—they likely are not! But we are through-cycle investors, and we are excited to support our partners through tough periods, when many will make their best investments for the years to come.

Critically, while our investment values have declined, our liquidity and cash flow has remained strong. Net distributions from our private portfolio for the year stood at $132 million, and our policy is to sell all of our stock distributions upon receipt. Our cash and bond balances remain at a healthy 8.6%, and liquidity management is a central feature of our risk- and portfolio-management framework.

Amherst College

Product of Amherst College Endowment Office, 2022

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