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Locked In: How Private Equity Is Reshaping Liquidity for Higher Education Endowments and Foundations

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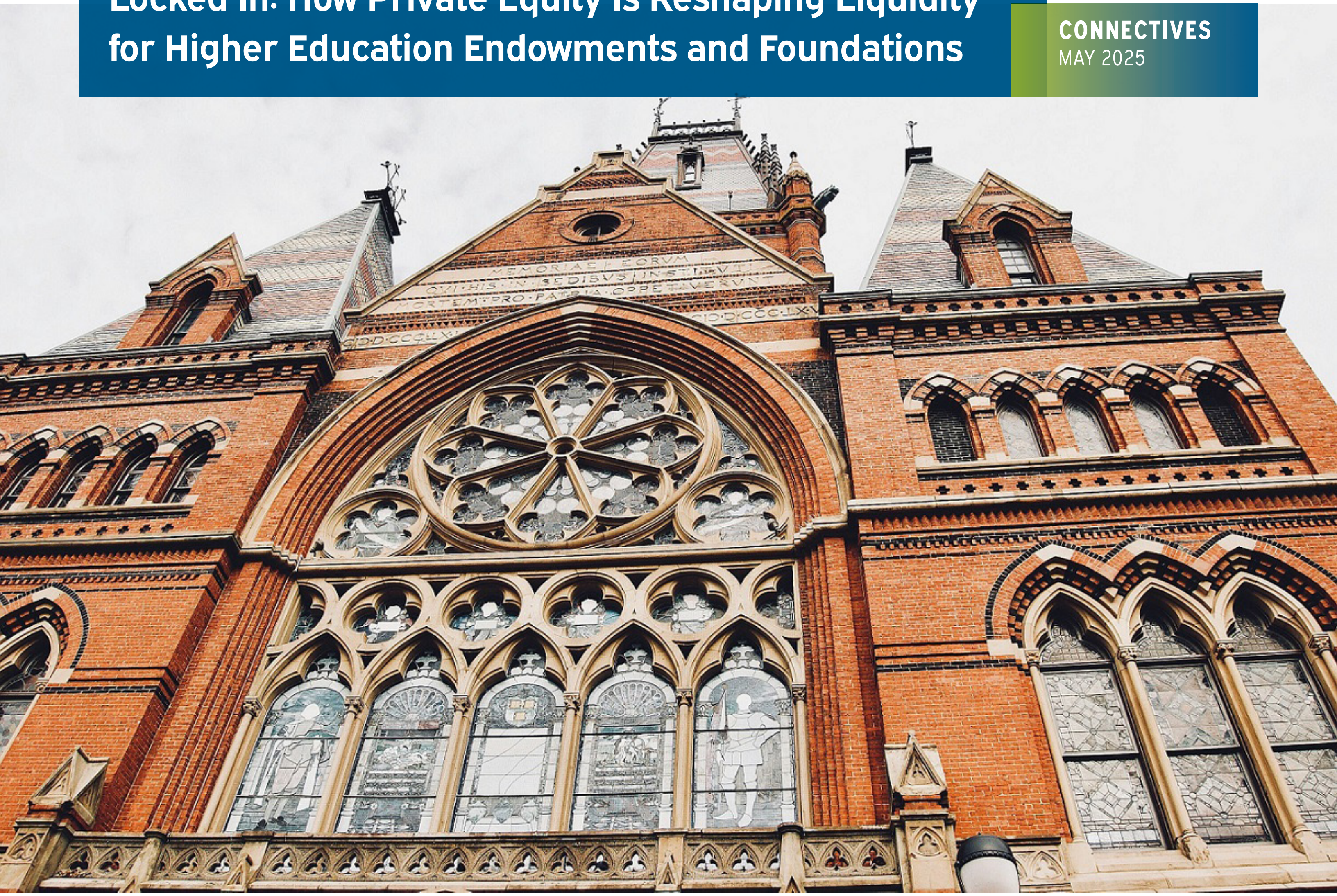

As spending demands rise and liquidity becomes harder to access, how can higher education endowment and foundation (E&F) portfolios keep up with cash demands as liquidity comes increasingly into focus? Many colleges and universities are experiencing tensions among declining enrollment, rising operating costs, and an uncertain policy landscape. This has strained the level of liquidity that those institutions are accustomed to having available.

In particular, those E&Fs with meaningful allocations to private equity may be in the most need of liquidity (see Figure 1) as it stands to reason those portfolios with more private equity are in search of higher returns, for a variety of reasons. For E&F portfolios heavily allocated to illiquid assets, the timing of current events is less than ideal . Some E&F portfolio decision makers now face a critical balancing act: meeting immediate obligations without undermining long-term objectives.

Endowment & Foundation ($)	Average Effective Spending Rate (%)	Equal weighted Private Equity and Venture Allocation (%)	Median 1-Year Performance (%)	Median 3-Year Performance (%)	Median 5-Year Performance (%)
101M - 250M	4.9%	11.3%	11.4%	3.2%	7.7%
251M - 500M	5.0%	15.8%	11.1%	3.2%	8.2%
501M - 1B	4.3%	19.8%	11.1%	4.1%	8.8%
1B - 5B	4.5%	24.3%	10.1%	3.6%	9.0%
> 5B	4.9%	32.0%	8.9%	2.3%	9.9%

FIGURE 1
Endowments & Foundations Median Effective Spending Rate, Private Equity Allocation and Performance

Source: NACUBO-Commonfund Study of Endowments (NCSE) FY 2024 Survey.

Many E&Fs with significant allocations to private and illiquid assets have been forced to rely more heavily on liquid public assets as exits from private equity have slowed.[1] This slowdown, rooted in a challenging environment for profitable exits, driven by weak public markets and elevated borrowing costs, shows little sign of easing in the near term.

While private equity has endured past downturns, such as during the 2008 financial crisis, private equity firms entered the current period of stress following an unprecedented surge in fundraising and high-profile exits in 2021. Since the peak in 2021, the environment has shifted significantly: fundraising activity slowed sharply in both 2023 and 2024, exit opportunities declined, and general liquidity challenges mounted.[2]

Larger endowments and foundations, those with assets greater than $500 million, are particularly exposed considering, on average, just over 25% of their portfolios are allocated to private equity and venture capital. Still, E&Fs with a lower allocation to private equity are also facing funding challenges as public markets have been roiled in the first four months of 2025. They have been "forced to rely on the performance of their public stocks and bonds to meet immediate cash needs."[3]

[1] Source: Bloomberg, M. Halftermeyer et al, "Yale Considers PE Stake Sales Amid Funding Turmoil," April 22, 2025.

[2] Source: Financial Times, A. Gara et al., "Big Investors Look to Sell Out of Private Equity After Market Rout," April 6, 2025.

[3] Source: NSCEA 2024 survey data.

Revisiting the "Yale Model ": Adapting to New Realities

Though no two endowments are exactly alike, recent developments at institutions like Yale and Harvard highlight growing strains in the traditional endowment model—particularly the one pioneered by Yale. Long held up as a gold standard, the "Yale Model" emphasized significant allocations to illiquid private market investments, with the goal of delivering strong long-term returns. Yet in today's environment of tighter liquidity, market volatility, and potentially increased spending demands, even time-tested approaches are being reexamined and, in some cases, recalibrated.

The Yale model is an investment strategy pioneered by David Swensen, emphasizing long-term growth through high allocations to illiquid alternatives like private equity, venture capital, hedge funds, and real assets.

Key features include:

- → Heavy use of private markets to capture the illiquidity premium
- → Diversification across asset classes and geographies
- → Long-term horizon, allowing for greater risk tolerance

Yale is reportedly seeking to sell up to $6 billion in private assets from its $41 billion portfolio.[4] Meanwhile, Harvard, which had 39% of its endowment allocated to private equity in 2024, has already begun arranging the sale of $1 billion in private equity stakes,[5] echoing a similar move in 2021 when it sold the same amount through the secondary market.[6]

In addition to asset sales, Harvard is pursuing a $750 million contingency loan from Wall Street to alleviate potential financial strain.[7] The urgency to raise liquidity could lead to discounted pricing and a more difficult fundraising environment . As one market observer noted, "The wave of pensions and endowments looking to exit private equity, often at discounts to stated valuations, is a troubling signal for the $4 trillion buyout industry."[8]

Further complicating the outlook, volatility in the global equity markets is prompting fresh scrutiny over how private equity holdings are valued, especially given the lag in mark-to-market updates.[9]

[4] Source: Financial Times, R. Wigglesworth, "The Death of the Yale Model," March 31, 2025.

[5] Source: Reuters, M. Pritiam et al., "Harvard University Exploring $1 B of Private Equity Stakes Sale, Source Says," April 22, 2025.

[6] Ibid.

[7] Ibid.

[8] Source: Financial Times, A. Gara et al.," Big Investors Look to Sell Out of Private Equity After Market Rout," April 6, 2025.

[9] Ibid.

Liquidity, Legacy, and the Path Forward

The current environment is encouraging a deeper look at how endowments and foundations balance long-term growth with the need to meet their obligations. Models built with long-term returns in mind—like the traditional endowment model, are facing liquidity questions not because of failure of the model, but because of a rapidly changing economic landscape. As headline institutions seek liquidity through asset sales and borrowing, their actions offer lessons for others navigating similar decisions.

Institutions with large allocations to illiquid assets now face critical choices: preserve their long-term investment approach, pivot to address urgent funding needs or do their best to find a middle ground. For many, that may require moving beyond legacy portfolio construction tools and reassessing foundational assumptions—about risk, liquidity, and what it truly means to be diversified.

While this article focuses primarily on higher education endowments—drawing from NACUBO data and institutional case studies—the themes explored here extend well beyond the higher education setting. Many of the liquidity challenges, allocation tensions, and long-term sustainability questions are shared across the broader endowment and foundation landscape. Whether supporting healthcare, the arts, social services, or education, mission-driven investors navigating illiquid portfolios may be able to draw valuable insights from how higher education institutions are responding to the current environment.

Now is the time for endowment and foundation leaders to reexamine the role of liquidity in their portfolios, not only in response to near-term pressures but in anticipation of future disruptions. That means asking hard questions about spending discipline, evaluating whether current allocations are appropriately positioned in a liquidity constrained world, and considering how traditional strategies may continue to evolve for the next generation of institutional endowment and foundation portfolios.

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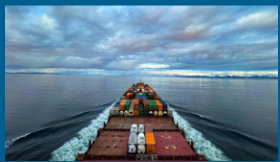

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