Are Yale's $6B Private Equity Sale & Its Smaller FY26 Budget Intertwined?

Yale's Potential $6B Secondary Sale and its FY26 "Constrained" Budget – Could They Be Related?

News broke this week that Yale University is seeking a secondary sale of up to $6B of private equity interests from its $41.4B endowment.[1]

While this action is historic, it is part of a broader narrative about the challenges higher education faces and the strategies institutions employ to manage uncertain budgets. As noted in a previous article, in the face of lower revenue due to federal funding cuts or endowment taxes, these institutions must carefully balance supporting their mission while maintaining the endowment in perpetuity. Yale's drafting of a "constrained" FY2026 budget in response to funding cuts highlights the reality that there is no easy, single answer to managing these uncertain times. Institutions must look at their budget as well as at the endowment to come up with a solution. TIFF anticipates that other schools may need to adjust their budgets, and Yale's secondary sale is likely not the last.

TIFF reminds its clients that having a liquidity profile and Strategic Asset Allocation that meets an institution's unique circumstances is key during periods of uncertainty. Misalignment between an institution's endowment strategy and its overall goals often leads to actions such as this.

Why this sale is historic for Yale

Yale literally wrote the book on endowment model, with late Yale CIO legend David Swensen's "Pioneering Portfolio Management" becoming the penultimate guide to utilizing alternatives in portfolio construction. Yale is one of the largest private equity investors in the world, with over $20B in private equity and venture capital, and an additional $5B in real

assets[2]. This sale represents a significant transaction for Yale, potentially involving more than 20% of its private equity holdings and nearly 15% of its entire portfolio. Finally, this is reported to be Yale's first time selling any of its private assets.[3]

Why could Yale be doing this?

Secondaries Investor notes Yale is attributing the sale to its portfolio management needs. TIFF estimates this move is aimed at adjusting asset allocations and potentially creating liquidity.

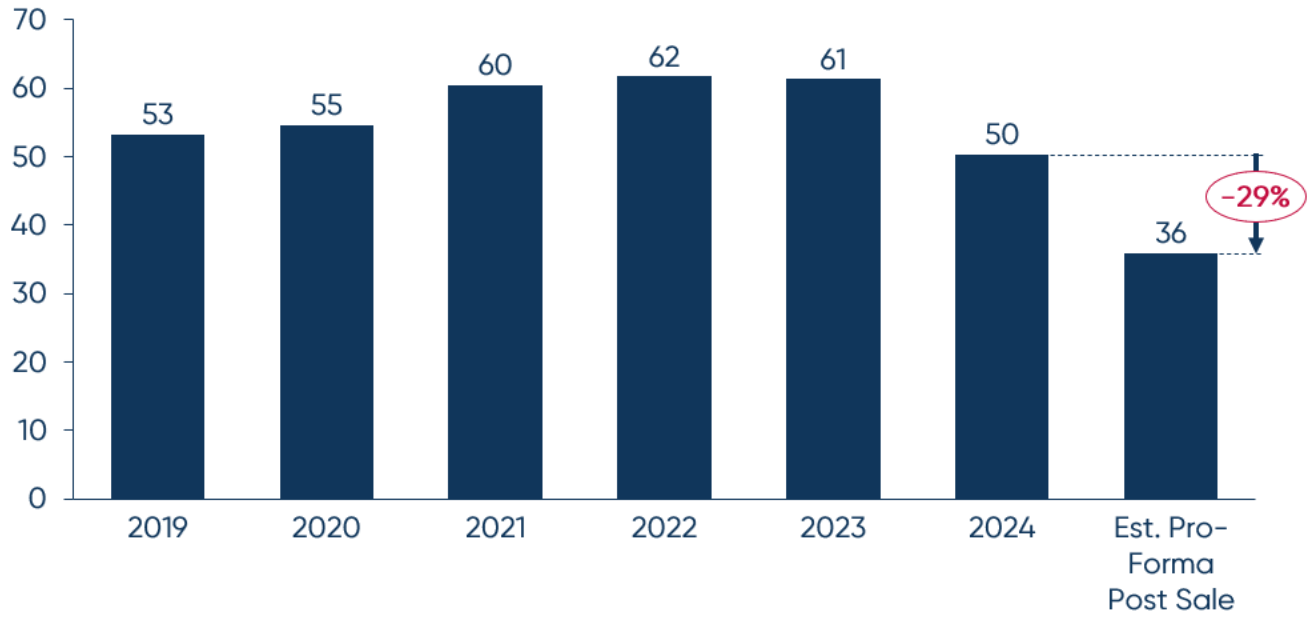
1. **Asset allocation shifts:** Yale's 3-year performance is a modest 2.7%, which is 5.5% below its long-term target of 8.25% (spend rate target + inflation). Similar to many other large endowments with substantial private allocations, Yale has underperformed due to its significant private markets allocation. While Yale's 10-year return remains above target at 9.5% due to those same private asset classes, recent underperformance may be pushing Yale to reconsider its asset allocation weights or the expected returns of *existing* investments. Yale explicitly stated it continues to believe in private equity: *"We remain committed to private equity investment as a major part of our investment program and continue to make new commitments to funds."*[4] Yale may believe the outlook is better for new capital deployed (in private equity or elsewhere) vs. the existing assets, despite the costs of transacting a secondary.
   Yale has shown its willingness to shift its target allocation year to year. The last time Yale shared its asset class targets in FY2020, privates were 55%, up from FY2019, with allocations shifting towards buyouts and venture capital and away from real assets.

Yale Endowment Private Allocations			
	FY19 Target	FY20 Target	FY24 Actual Allocation
Venture Capital	21.5%	23.5%	24%
Buyout	16.5%	17.5%	15%
Private Equity	*38.0%*	*41.0%*	*39%*
Real Estate	10.0%	9.5%	
Natural Resources	5.5%	4.5%	
Real Assets	*15.5%*	*14.0%*	*11%*
Total Privates	**53.5%**	**55.0%**	**50%**

Source: Yale Annual Report, FY2019, FY2020, FY2024.

2. **Increase liquidity to provide optionality for Yale budget support:** Yale may want to increase the liquidity in its portfolio to support potential budgetary needs, despite stating that this sale is for portfolio management purposes. If executed at $6B, this sale would increase liquidity dramatically. TIFF estimates Yale's current level of illiquidity at c. 50%, which is the lowest level of privates in six years. Post-sale, illiquidity would decrease to an estimated 36%.

Yale Endowment Private Allocation Over Time



Source: Yale Financial Statements, FY2019-2024.

What it says about challenges higher ed face and how this impacts endowments

Despite the comment that this sale is for portfolio management needs and has been underway for months, recent federal policy proposals and actions could also be influencing the need to increase liquidity.

Yale is already planning for lower funding and will be drafting a “constrained” budget for FY2026. In a letter to the larger Yale community, the Yale administration noted the budget would include reductions in spending on faculty raises, faculty and staff hiring, campus construction, and general non-salary expenditures.[5]

Federal funding cuts: In FY24, Yale received $899 million from the federal government for academic research and training.[6] While Yale has not yet received any letters from the Department of Education, its Ivy League peers Columbia, Harvard, and Cornell have, setting the likely stage that Yale is close behind.

Increased endowment tax: Yale relies heavily on its endowment, which was the single largest source of revenue at 34% in FY24.[7] Yale is already subject to the existing 1.4% endowment tax. An increase to the endowment rate would decrease the dollar amount available to support the budget.

Other federal proposals that would impact funding: Harvard has been threatened with the loss of its tax-exempt status and ability to enroll foreign students, both which would tremendously impact revenue. Yale could potentially encounter similar challenges.

Conclusion: Yale – A Canary for More Budget Cuts & LP Secondary Sales?

Higher education is facing a multitude of challenges in a changing federal policy landscape, prompting institutions to adapt through budget and endowment adjustments. TIFF anticipates that other impacted higher education institutions may need to adjust their budgets to address these evolving financial pressures.

TIFF also believes Yale won’t be the last to clean up its endowment, shoring up liquidity and rightsizing asset allocation, through secondary sales. Following the Global Financial Crisis, we saw a large increase in LP secondary sales as many nonprofits were overallocated to private

investments. We haven't seen the same phenomenon post-COVID, as many institutions learned their lesson and better managed their portfolios to avoid significant overallocation. However, current federal policy pressures on budgets may force overallocated nonprofits to finally take action and enter the secondary market.

All this being said, TIFF reminds investors that Yale may not represent the average endowment. It is crucial for institutions to have a liquidity profile and Strategic Asset Allocation that meets their unique circumstances, especially during periods of uncertainty. Misalignment between an institution's endowment strategy and its overall goals often leads to actions such as this. The average private higher education institution has 41% in illiquids, with smaller endowments having even less (average 17%)[8], far below Yale's 50-60%. These institutions generally have more liquidity to navigate changes without restoring drastic actions like Yale's. TIFF emphasizes the importance of each institution adhering to its own Strategic Asset Allocation, as overallocation is a primary reason for secondary sales.

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Footnotes

1. https://www.secondariesinvestor.com/yale-sells-up-to-6bn-of-its-pe-portfolio-amid-federal-funding-challenge/
2. https://your.yale.edu/sites/default/files/fy24-financial-report-10_25_24.pdf
3. https://www.secondariesinvestor.com/yale-remains-committed-to-pe-as-it-confirms-portfolio-sale/
4. https://www.secondariesinvestor.com/yale-remains-committed-to-pe-as-it-confirms-portfolio-sale/
5. https://yaledailynews.com/blog/2025/03/06/yale-to-curb-faculty-raises-hiring-constru

ction-as-trump-imperils-funding/

6. https://yaledailynews.com/blog/2025/01/29/federal-aid-freeze-threatens-almost-1-billion-of-yale-funding/
7. https://your.yale.edu/sites/default/files/fy24-financial-report-10_25_24.pdf
8. NACUBO Study of Endowments FY2024. Smaller endowment defined as $100-250M segment.

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