



Finalized: The Endowment Tax & its Investment Impact

FOREWORD

Endowments represent nearly [\\$1 trillion in assets](#) in the US and are one of the most sought-after sources of LP capital, given their long-term investment horizons, tendency to stick and re-up with well-performing GPs, their investment sophistication, and their lack of cumbersome compliance relative to other LP groups. It is no surprise, therefore, that the endowment tax and its potential implications for their investment office efforts has been a point of high interest among GPs and peer LPs over the last six months.

In our recruiting efforts, we strive to create additional value for clients through the unique talent and market insights we cover. In this spirit, **Maven** spoke in confidence with the **Chief Investment Officers** or their direct reports, at over **15 endowments** whose excise tax on net investment income will increase through the finalized **One Big Beautiful Bill Act**. As well as with over 30 total institutions who, at the time of our conversation, were going to be affected (but who have since been excluded from the bill's criteria) and similarly shared their potential reactions. To keep information confidential and relevant, the **following insights have been aggregated** from the still-affected endowments referenced above. In this white paper, we highlight the key considerations for this subset of LPs and the GPs they work with.

If nothing else, our findings confirm the level of diligence, networking, and planning which endowment investment teams employ to protect and grow the capital of their missions. From a recruiting perspective, this only reinforces their standing as a well-regarded pool of talent in the LP community.



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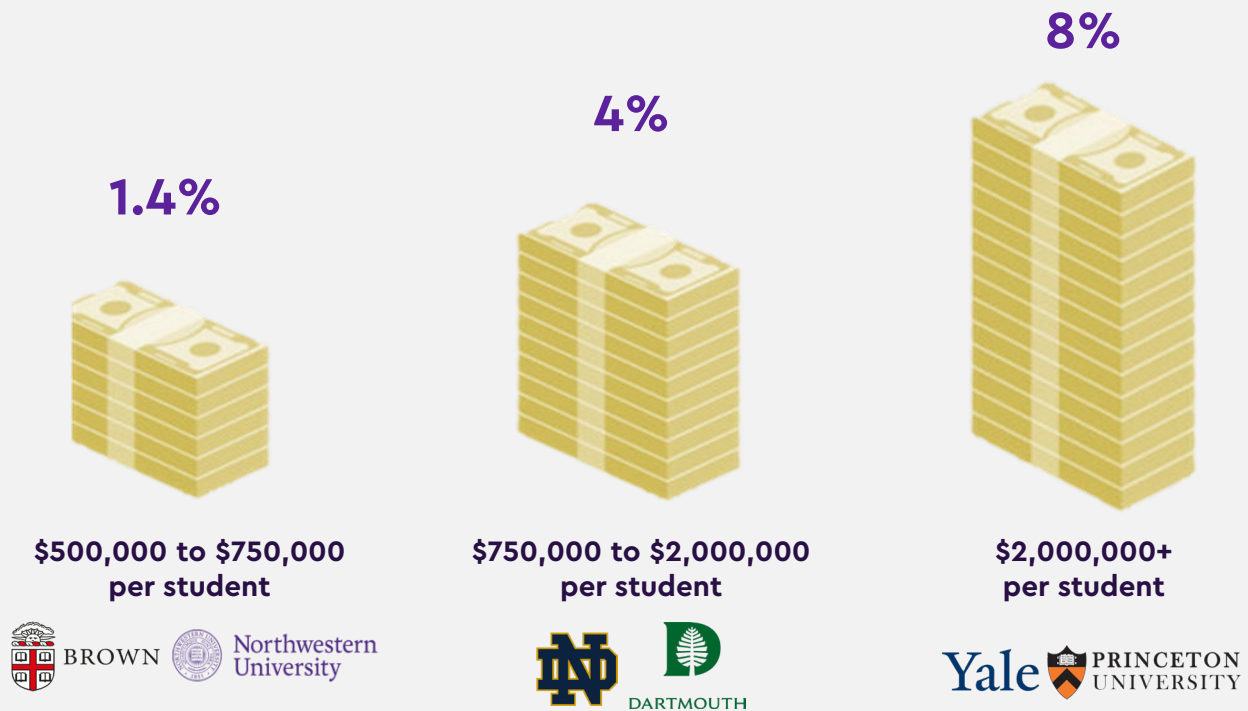
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The Finalized Bill – Who is Impacted?



We have come a long way from multiple dozens of endowments facing excise tax increases ranging between 7% and 21% on net investment income, as well as hundreds of foundations facing an excise tax of 5% and even a small group at 10%. These would have been drastic increases in scope from the existing 2017 tax of 1.4% on private colleges and universities with at least 500 tuition-paying students, and an endowment of at least \$500k per student.

Instead, **foundations have been entirely excluded** from these increases in the final bill, and liberal arts schools have mostly achieved a similar exclusion through an amendment **sparing colleges with fewer than 3,000 tuition-paying students**. Among the remaining endowments, the below chart reveals final excise tax numbers of **1.4%, 4%, and 8%**, based on the amount of endowment per student, that are much more palatable, at least compared to earlier proposals.



Another significant change in the Senate is the **reversal of the exemption for religious schools**, with Notre Dame's ~\$18 billion endowment being the most notable case to lose exemption. Finally, the **inclusion of foreign students** in the calculation of endowment per student has helped some institutions avoid a higher rate.

Overall, it seems [the lobbying numbers many institutions put forward in 2025](#) were well worthwhile.



Where Will the Money Come From?



Affected institutions, especially in the 4% and 8% excise tax brackets, will have to decide; increase their percentage of endowment spend, or reduce their operating budgets? Most endowment investors surveyed were either uncertain on this matter or felt there would be slight increases to endowment spend. For those in the highest bracket, and especially if also facing significant cuts in federal funding, it will likely have to be a multi-pronged approach of increased spend and reduced budgets. Stanford, for example, announced \$140 million in cuts from its budget for the coming academic year.

Other options include fundraising and other sources of revenue, as well as attempting to increase the returns of the endowment. However, sources shared the latter is less viable, as their teams have already been tasked with achieving the best risk-adjusted return they can comfortably achieve for their spend.

The Impact on Endowment Portfolios

A few months ago, when some endowment investment teams were expecting 14% and 21% excise taxes on their net investment income, more extreme scenarios were modeled regarding spend, returns, liquidity, and tax-efficiency. With the final headline numbers topping out at 4% and 8%, most endowment investors do not anticipate having to make any drastic decisions top-down in their portfolios. There will, however, be a go-forward scrutiny of tax inefficient hedge fund and private credit strategies, as well as lower-yielding illiquid strategies – especially for the most heavily affected endowments. They may be tempted to keep more cash on hand, especially in the current market environment, as well as chase returns in their equity portfolios while keeping an eye on liquidity after years of significant increases in their private portfolios and valuations.

In one creative example of go-forward tax efficiency while seeking higher returns in their liquid portfolio, one endowment CIO shared they are exploring pairing concentrated single-stock-picker equity

managers, with tax-loss harvesting strategies. There may also be efforts for some to realize gains, prior to the increase in their excise tax. While some significant private secondaries sales have seemed rushed, in reality secondaries buyers are flush with cash and major endowment brands should not have trouble receiving attractive prices for their limited sales.

At the end of the day, endowment investors are known for their patience, steady hands, and willingness to flex their bottom-up, opportunistic investment instincts when enabled. In fact, one investor at an affected endowment shared, **"Not only might we not be sellers on the secondaries market, we could be buyers from a peer if there was an attractive opportunity."**

For most endowments then, this is all on the margins as far as the final bill is concerned, and they will continue to back great managers and with the long-term view they are known for.

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– Senior Investor with Large Endowment

The most notable impact cited for affected endowment investment offices was regarding their allocations to hedge funds, especially to **systematic/high-frequency strategies in onshore vehicles**, among others, where there are significant tax realizations. Approximately one third of endowment investors surveyed were evaluating and having conversations regarding the structures of their hedge fund allocations. While a couple of investors were considering redemptions, it was only with managers they were already considering redeeming from. For the overwhelming majority, they have invested with managers they believe in and have had success with, and they will first go to them to **explore offshore and other tax-efficient structures**, where they can delay and/or hopefully offset realizations. In one creative example, one endowment investor was exploring a portable alpha manager with a hedge fund strategy overlayed on a futures strategy. Outside of this group's new considerations for tax efficiency, it is worth noting they will likely continue to back managers whose outstanding performance more than makes up for their tax inefficiency.

Tax Experts are Still Catching Up

While there is a limited amount of specialized, new work that the endowment tax will bring to tax advisors relative to their typical broader non-profit or investment expertise siloes, there remains an opportunity for expert advisors to emerge regarding the excise tax and its impact on endowment investment efforts. All except a few endowment investors surveyed felt the advisor they engaged was not adding the value they had hoped for – as one endowment investor put it "If you find a tax advisor who knows something that isn't public, or is a true value-add expert, let me know since I have an entire network who wants to know them". In all fairness, this tax was new (to this extent) to its field and has been a moving target, but there is certainly a market opportunity.

Tax experts should arise who can provide an endowment advice both on tax-efficient investing and spend, as well as where strategies may or may not be appropriate - such as the varied ways they may attempt to lower their effective tax bracket. As one endowment CIO mused, "The people who will profit from this, regardless of the outcome, are tax attorneys and some structured product specialists on wall street to defer or eliminate tax".

A background image showing a classical building with large columns and trees in front of it. The image is slightly faded and serves as a backdrop for the quote.

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– Endowment CIO

Impact on Endowment Investment Staff



Just months prior to the writing of this paper, a family office CIO remarked, "I have had three times the endowment and foundation investors than normal reach out asking how to break into the family office world because of the tax. The last time this happened was 2020." That number certainly seemed to have come down by the time Maven spoke with most endowment CIOs and senior investors in the past month, with only a few indicating the tax had increased their interest in leaving the space. These individuals were also at heavily affected endowments and attributed their feelings mostly to the amount of time spent discussing and navigating a mix of scrutiny and operational questions, as opposed to the investment focus they chose in an endowment career.

Overall, endowment investment offices remain highly sought-after landing points for LPs in their careers, and Maven does not anticipate any major shifts in talent. Indeed, the bigger impact on talent this year may be the uncertainty regarding investment performance and bonuses. For affected endowments, the increase in excise tax will simply add one more consideration, among many, to their asset allocation and due diligence on managers.

However, there will certainly be some bottom-up oriented investors, and perhaps number-twos at the most heavily affected endowments, who are poached for what feels like a more nimble and unburdened investment effort elsewhere. And the jobs they vacate will certainly be replaced with great talent in short order.





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About the author



Sean leads Maven's **Asset Owner** practice, with a specialty in recruiting **Chief Investment Officers** and senior investors, as well as senior operational leaders, for **Endowments, Foundations, Family Offices, OCIOs**, and other institutional investment offices.

Leveraging his ten-year track record in financial recruiting, specialized network, and personal approach with clients, he is committed to curating a knowledge-oriented and bespoke retained service.

Sean pairs his commitment to clients with one of the recruiting market's only dedications to **LP community**, their missions, and their talent.

Citations

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