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Finalized: The Endowment Tax and its investment impact

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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 tax will increase through the finalized One Big Beautiful Bill Act. As well as with over 30 total endowments 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.



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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.

THE FINALIZED BILL - WHO IS IMPACTED?

We have come a long way from multiple dozens of endowments facing excise tax increases to ranges between 7% and 21%, as well as hundreds of foundations facing an excise tax of 5% and even a small group at 10%.

Instead, foundations have been entirely excluded from these increases, 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 excise tax numbers of 1.4%, 4%, and 8% that are much more palatable, at least compared to earlier proposals.

1.4%

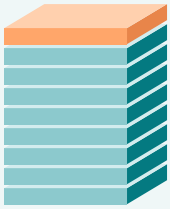


$500,000 to $750,000 per student

Northwestern University

BROWN

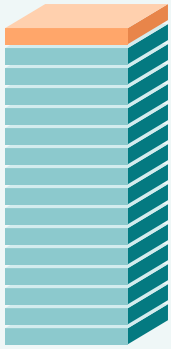
4%



$750,000 to $2,000,000 per student

DARTMOUTH

8%



$2,000,000+ per student

Yale

PRINCETON UNIVERSITY

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 up in 2025 were both understandable and 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, but we could also 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.

HEDGE FUND ALLOCATIONS

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, 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 are 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 these cases, there are also managers whose outstanding performance more than makes up for their tax inefficiency.

TAX EXPERTS ARE STILL CATCHING UP



> “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."
>
> **- Endowment CIO**

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 two 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”.

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".

ABOUT MAVEN PARTNERSHIP

Maven Partnership is a leading executive search and talent advisory firm transforming clients' businesses in investment banking, global markets, investment management and technology from our offices in New York, West Palm Beach, London and Hong Kong.



ABOUT THE AUTHOR



Sean leads our Asset Owner practice, bringing a dedicated service to endowments, foundations, OCIOs, and the broader LP community, with a focus on Chief Investment Officer, Chief Operating/Financial Officer, and broader investment, operational, and client leadership searches.

Leveraging over a decade of search experience and dedication to LPs, Sean is passionate about talent as the cornerstone of a successful investment office.

CITATIONS

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