Image source: iStock/Steve Rosenbach

Inside Yale's $6B private market contingency move: politics, liquidity, and risk

Elite universities are facing unprecedented political headwinds. President Donald Trump has openly threatened to cut off federal funding to colleges over campus protests. Billions in research grants and contracts could be pulled.

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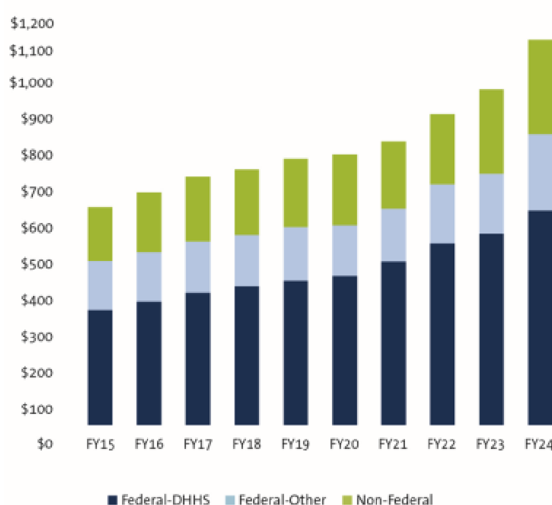
In early April, President Trump's administration launched a review of $9 billion in federal support to Harvard University amid a crackdown on alleged campus antisemitism. The government temporarily froze dozens of research grants at Princeton as well. In response, these institutions quickly began fortifying their finances. Harvard announced plans to borrow $750 million through a bond issue as a financial buffer and is also in talks to sell $1billion of private equity stakes. Princeton likewise signalled it may raise about $320 million by issuing taxable bonds. Yale University, which holds one of the largest endowments in the world, is now taking steps as well.. Yale revealed it is exploring the sale of a large chunk of its private investment holdings on the secondary market. The transaction could total around $6 billion, representing roughly 15% of Yale's endowment. By converting a portion of its illiquid assets into cash, Yale could better withstand potential funding cuts, especially given that it receives nearly $900 million in federal funding.

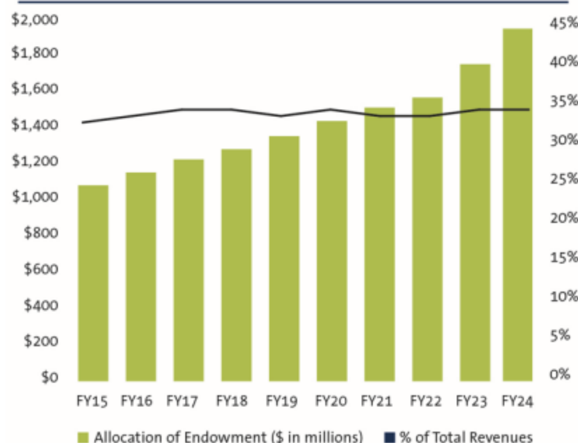


Yale 2024 report

Yale's endowment and the "Yale Model"

Yale's endowment, valued at $41.4 billion, supports the university's operations in perpetuity. Each year, Yale typically spends about 5% of the endowment value to fund its budget, meaning the portfolio must generate returns that cover this spending plus inflation, roughly 7% annually over time. To meet this goal, Yale follows an investment approach pioneered by David Swensen, known as the "Yale Model." It emphasises diversification and allocates a large portion of capital to illiquid assets like private equity, venture capital, and hedge funds. The strategy seeks to capture higher long-term returns through the illiquidity and complexity premiums available in private markets. While this approach delivered strong results over the past two decades, it also requires careful liquidity management, especially in times of stress, when much of the portfolio cannot be easily sold.

The portion of Yale's operational spending covered by its endowment is substantial—accounting for nearly 35% of the university's total budget—and has remained stable over the years. However, this could change if federal grant funding is reduced.



Source: Yale 2024 report

Why Yale is considering a $6 Billion sale now

Several factors contributed to Yale's consideration of selling around $6 billion of its private investments in 2025, with political uncertainty at the top. The threats of funding cuts from Washington are more than bluffing, as federal agencies already delayed or attached new conditions to research grants for some Ivy League schools. Universities like Yale are preparing for a scenario where government support could shrink, at least temporarily. Having extra cash on hand is a prudent safeguard so that teaching and research can continue uninterrupted even if federal dollars are withheld. Yale's endowment assets are largely illiquid, so a secondary market sale of some investments is one way to raise liquidity quickly.

Beyond politics, market conditions made Yale's illiquid portfolio tougher to manage. In recent years, public stock markets have moved dramatically, and interest rates jumped from near-zero to multi-year highs, leaving Yale's portfolio out of balance. When stock markets rallied, Yale's heavy private holdings lagged, because many private equity positions did not see immediate gains or "exits" (profitable sales of companies) during that time. In fact, Yale's investment return for the fiscal year 2024 was only 5.7%, which is significantly lower than its 10-year average of 9.5%. The university openly acknowledged that its significant allocation to private assets would cause a lag during periods of strong public market performance, especially when the exit markets for those private assets are weak. This situation naturally calls for rebalancing, trimming some private holdings to free up cash and possibly redeploy into areas that maintain the desired asset mix and risk level.

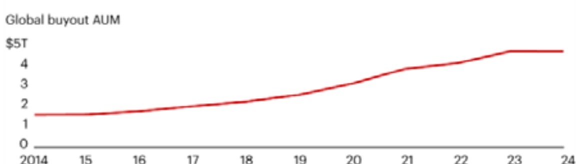
Another key factor is the slowdown in cash distributions from private equity funds. University endowments rely on private equity managers to eventually return cash from their investments; when a private equity fund sells a company from their portfolio or takes it public, the proceeds get distributed to investors like Yale. Lately, those distributions have slowed to a trickle. Since 2022, the pipeline of initial public offerings and big buyouts has been weak, which means private equity funds are holding on to companies longer and sending less cash back to investors. According to one estimate, private equity firms' payout rates have declined to roughly one-third of what they once were. Consultants at Bain & Company report that annual distributions to investors have fallen from about 29% of private assets a decade ago to just 11% today.

This "liquidity squeeze" creates a challenge for endowments: while their portfolios may appear robust on paper, the actual cash flow available to fund operations has significantly decreased. Yale's heavy exposure to private equity – about 45% of its portfolio, the highest among top universities – makes it particularly vulnerable to these cash flow delays. As one analyst put it, it's a "perfect storm", pressuring big endowments of poorer short-term returns, reduced liquidity from investments, and now political threats on the revenue side. Selling some private assets now, even at a slight discount, would generate a cash buffer for Yale and reduce the risk of being caught short if multiple challenges persist. Yale's leadership has also hinted at budgetary prudence: the university warned that its upcoming 2026 fiscal budget will be "far more constrained" due to recent low endowment returns.

Distributions to investors have not kept up with strong growth in assets under management

Assets under management

Global buyout AUM



Distributions

Global buyout distributions as a percentage of net asset value

Notes: Buyout category includes buyout, balanced, coinvestment, and coinvestment multimanager fund types; global buyout AUM through June 2024; global buyout distributions as percentage of NAV through Q3 2024, annualized

Source: Preqin, MSCI, Bain analysis

How a secondary sale of private assets works

Private equity investments are designed to be long-term and illiquid, investors commit capital to a fund, which is gradually deployed over several years, with cash returns— or distributions—typically occurring only once the underlying companies are sold. However, investors like Yale can exit early by selling their fund stakes on the secondary market, where buyers take over both the remaining capital commitments and the rights to future distributions.

To make such a transaction attractive, sellers generally need to offer a discount to net asset value (NAV)—the most recent valuation reported by the fund managers. In today's market, these discounts typically range from 10% to 20%, depending on factors such as fund vintage, strategy, manager quality, and market sentiment. For example, if Yale sells a stake marked at $100 million NAV, it may only receive $80 to $90 million in cash proceeds. The deeper the discount, the higher the implied cost of liquidity.

For Yale, a $6 billion sale could result in actual proceeds of closer to $5 to 5.4 billion after discounts. This means accepting a degree of "value leakage" relative to paper valuations, which affects short-term performance metrics. However, it also reduces the risk of being overexposed to illiquid assets in a challenging exit environment, while boosting Yale's ability to meet potential cash needs, from covering operational costs to managing future capital calls from other private funds.

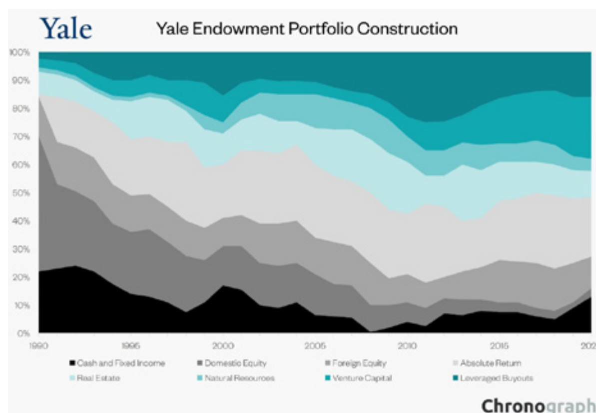
This trade-off is central to portfolio management for institutions with long-term objectives but short-term constraints: realising immediate liquidity today comes at a price but may strengthen financial resilience in a period of political uncertainty and weak private equity distributions. For a long-term investor like Yale, the decision hinges not just on price, but on overall portfolio balance and strategic flexibility.

It's not a fire sale: Yale has indicated it will only proceed if it can get an acceptable price for its portfolio on the secondary market. If bidders demand too steep a discount, Yale can choose not to sell.

"We're not abandoning private markets": Yale's assurances

Yale has made clear that the planned sale is a tactical adjustment, not a strategic shift. In a statement to Reuters, the university emphasised: "We remain committed to private equity investments as a major part of our investment program and continue to make new commitments to funds raised by our current investment managers." Yale is also "actively seeking new relationships with private equity firms."

Private markets remain essential to the university's investment model, not only due to their historical performance, but because Yale must maintain a high-risk profile to meet its long-term return objective, typically around 7% annually to cover both its spending rate and inflation. Even after the sale, the endowment will retain significant exposure to illiquid assets.



Source: Yale Investments Office

Private equity: pullback or pause?

Yale's secondary sale plans are part of a broader moment of recalibration in the private equity market fuelled by macro changes. After years of rapid growth, 2024 marked the first decline in private equity assets under management in decades, falling 2% to $4.7 trillion according to Bain & Co. which puts Yale's $6 billion sale into perspective.

This reflects slower deal exits, weaker fundraising, and reduced cash distributions to investors. Some institutional investors are trimming exposure or delaying commitments, not necessarily as a long-term rejection, but as a temporary response to tighter liquidity, market volatility, and political uncertainty. At the same time, global shifts, such as Chinese sovereign wealth funds pulling back from US private equity, signal that geopolitics is influencing capital flows.

Yale University's plan to sell part of their PE portfolio illustrates the balance that big endowments must strike in turbulent times. It is a response to short-term pressures, political changes and market illiquidity, carried out in a way that tries not to compromise the long-term investment strategy that has served Yale well. By turning a portion of its illiquid holdings into cash, Yale would gain flexibility to navigate funding challenges and rebalance its finances, all while keeping a high allocation in the private market investments that aligns with its long-term performance targets. In an era when both politics and markets are unpredictable, Yale and its Ivy League peers are showing that even the savviest long-term investors sometimes need to adapt on the fly to safeguard their institution's stability.

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