# NEWS

*"What can it mean to a daydream believer and a homecoming queen?"*
**DAYDREAM BELIEVER** BY THE MONKEES

# Faculty group urges Yale to reject potential Trump compact

BY ASHER BOISKIN AND JAEHA JANG
STAFF REPORTERS

The Yale chapter of the American Association of University Professors urged faculty members in a Thursday email to pressure the University administration to reject a federal compact reportedly being sent to all universities by the Trump administration.

In an Oct. 13 article, Bloomberg reported that the Trump administration had offered to all U.S. colleges a compact that would provide preferential government funding in exchange for certain policy changes. The offer was initially extended to nine select universities earlier this month.

Karen Peart, the University spokesperson, did not confirm nor deny whether Yale had been sent the compact.

The compact would require universities to end academic departments or initiatives that "purposefully punish, belittle, and even spark violence against conservative ideas," according to Inside Higher Ed. It would also require the consideration of standardized test scores for admissions, freeze the cost of tuition and cap international undergraduate enrollment.

"In the last ten months we've seen dozens of attempts from the White House to impose an ideological agenda on U.S. colleges and universities," Daniel HoSang, the president of Yale's AAUP, wrote in an email to the News. "Our AAUP Chapter, together with national AAUP and many dozens of chapters across the country, recognize the danger it poses to academic freedom."

In an email addressed to the Yale community, the executive committee of Yale's AAUP called the proposal — formally titled the "Compact for Academic Excellence in Higher Education" — "extremely dangerous," arguing it would coerce universities into adopting the Trump administration's political priorities.

The email urges Yale faculty members to attend an upcoming AAUP membership meeting and to write directly to University President Maurie McInnis and Yale's board of trustees, offering an email template addressed to McInnis that describes the compact as "a severe threat to academic freedom and to the students and faculty at Yale." The Yale AAUP's goal is to have at least 100 faculty members write to McInnis, according to its email.

"Our chapter and members are speaking out against it because it's unlawful and dangerous to free inquiry and expression," HoSang wrote to the News. "We have to be vigilant in protecting those principles."

Peart did not answer the News' questions about whether the University would sign the compact or if the University shares Yale AAUP's concerns about political interference in university affairs. She wrote in an email statement to the News that Yale is "open to faculty input and remains committed to advancing its mission."

The AAUP's email also asked community members to attend the "No Kings" protest against the Trump administration, which took place across the country, including on the New Haven Green, on Saturday, and sign a petition that demands university leaders to reject the compact.

The petition claims that the "Trump administration is trying to blackmail schools" and "dictate what schools teach." It accuses billionaires of "kidnapping our neighbors, stripping our rights, and squeezing every drop of money they can out of us to fatten their own wallets."

In their Thursday email, the executive committee of Yale's AAUP warned that Trump's compact would "essentially end the faculty's role in governance of the university" and "be devastating to academic freedom."

The Massachusetts Institute of Technology on Oct. 10 was the first university to announce its rejection of the compact. The University of Pennsylvania, the University of Southern California, Brown University, the University of Virginia and Dartmouth College followed suit. No university has announced that it accepted the compact yet.

In April, Yale AAUP joined the Faculty of Arts and Sciences and School of Engineering and Applied Science Senate, often called FAS-SEAS senate, in sending a letter to McInnis, Provost Scott Strobel and the Yale board of trustees, urging them to "resist and legally challenge any unlawful demands that threaten academic freedom and university self-governance."

Yale's AAUP chapter was revived in November 2024.

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# Yale can't just dip into its endowment to pay for Trump's tax. Why?

BY DANI KLEIN
CONTRIBUTING REPORTER

As Yale endures budget cuts and financial tightening tied to Trump's endowment tax hike, students can't help but ask the question: why does the University need to make budget cuts, when it has, supposedly, access to billions of dollars of endowment money?

Yale comes in second in university endowment total size at around $41 billion and second in university endowment per student at over $2 million.

Trump's July financial megabill adjusted the annual tax on endowment revenue from the 1.4 percent tax passed in 2017 to a tiered tax which gives Yale an 8 percent tax rate. Taxable income is more widely defined under the new bill. The tax will affect Yale's returns in fiscal year 2027, which begins this coming summer.

Yet, three tenets of the stewardship of Yale's endowment make it impossible to immediately increase spending — the endowment is managed with a goal of promoting intergenerational equity, it is invested using a high risk, low liquidity approach and it contributes funds to the university based on a formula that aims to smooth the effects of market and policy fluctuations.

**Intergenerational equity**

In 1974, James Tobin, an American economist, Yale professor and Nobel Prize winner, defined what is now called intergenerational equity: the idea that institutions and individuals owe fiscal responsibility and growth to future generations.

But while many individuals and businesses invest so that they or their direct descendants can benefit from returns, Yale's endowment is invested in the interest of Yale generations far in the future, wrote Rooney in an email. Per Rooney, this value means that the endowment can't act as an unlimited pile of money for the University in times of economic uncertainty.

"While Yale Investments manages the endowment funds as a single pool to ensure that future generations benefit from the same excellent resources available today, the University cannot dip into that pool as if it were a piggy bank available for any worthy expenditure," wrote Rooney.

**Low liquidity, higher returned with the Yale Model**

In 1985, Tobin suggested an unexpected candidate to manage Yale's endowment: a young former mentee of his named David Swensen. Swensen would go on to develop what is now called "The Yale Model," the prevailing investment philosophy of top endowments today.

The Yale Model, also known as the Swensen Model or the Endowment Model, can be defined as a specific investment strategy that takes on significant financial risk and leaves money in the market for long periods of time.

The model invests the portfolio across several asset classes, or different kinds of things that an individual or corporation can own, buy or sell, according to Alex Hetherington '06, a managing director at the Yale Investments Office.

Historically, endowment funds are invested in between five and eight asset classes at a given time, depending on how the asset classes are defined, per Hetherington. Examples of asset classes include stocks, bonds, real estate and private equity — an exclusive financial market which allows large stakeholders to buy controlling stake in private companies, make them more profitable, and sell them at higher prices. The model diversifies heavily and aims to avoid asset classes with low expected returns, Hetherington noted.

Swenson's investment philosophy, which has been widely adopted by university endowments, centers around the innovative idea that liquidity — basically, how easy it is to cash out an investment — should be avoided rather than desired.

According to information from the Yale Investments Office, the Yale Model is characterized by heavy investment in less liquid asset classes such as private equity, and less investment in things like the stock market, which are usually considered to be low risk and low reward.

Because a university of Yale's size is well-positioned to take on significant financial risk, over a 30-year period, Yale's investment strategy has added over $30 billion in value. This result demonstrates that the Yale Model is far more lucrative than a passive investment strategy that would leave Yale's endowment in low-risk investments for long periods of time.

The advantage of a high risk, low liquidity investment strategy that tends to leave money in the market for long periods is that you avoid the costs that come with moving money in and out of the market in response to market changes.

But this complex approach comes with an obvious disadvantage: a less liquid portfolio means cash is a lot harder to get your hands on at any given moment — the endowment can't always move huge amounts of money around the market easily, even in times of political pressure, financial crisis and uncertainty, such as the endowment tax hike.

"You want to figure out how much risk you want to take, and then you want to allocate your portfolio, and then don't fool around every time you see something happening in the economy," said Andrew Metrick, a professor of finance at the School of Management who served as an undergraduate research assistant to Tobin and was later a close colleague of Swensen's.

"There are rewards for people who are willing to stay put and wait out the bad times," Metrick said.

Kelly Shue, also professor of finance at the School of Management, echoed Metrick. The downside of the endowment's illiquid strategy comes to the fore under economic stress, she said.

"All institutions are trading off: they care about current needs, they care about future needs, they have different weights on each, and people can disagree on what the correct weights are," Shue said. "What we are learning in the current climate is that many universities do want liquidity right now, it turns out, and in many cases they wish they had more liquid investments."

**The smoothing formula**

Endowment managers use something called a smoothing formula to calculate how much of the endowment will be spent in a given year.

In order to sustain itself, the endowment must necessarily outpace inflation rates as years pass to achieve positive real returns — to have returns be effectively positive over time.

Instead of spending the actual funds in the endowment on current university financial needs, Yale spends a carefully calculated percentage of endowment revenue. Every year, Yale aims to spend 5.25 percent of its endowment value. Higher ed inflation — measured on its own index, separate from consumer inflation — occurs at a rate of roughly 4 percent per year as noted on Yale's website page explaining the endowment.

Therefore, the endowment needs to grow by 9.25 percent per year, through investment returns or new donations, in order to maintain its real value while also providing essential funds to the university at a relatively constant rate.

The goal of the smoothing formula is to make the university's endowment spending rate, and therefore the amount it is able to contribute to the budget, less reactive to changes in the value of the endowment due to market fluctuations. The function slows the incorporation of those fluctuations into Yale's budget. Every year, spending from the endowment is calculated in the context of the target spending rate of 5.25 percent. In reality, though, that spending percentage is calculated using the following formula: (see graphic)

This formula means that crises can hinder flexibility for multi-year periods.

For example, in the case of the -25 percent return on the endowment in 2009 as a result of the Great Recession, that loss in value was incorporated into endowment spending over the course of the next two years and beyond, allowing endowment spending to fluctuate far less than it would have under an annual calculation.

The reactivity of endowment spending to market conditions is minimal by design, aiming to provide "predictable, sustainable funding for university operations, regardless of market volatility," wrote Rooney. If the smoothing equation changed every time the United States experienced an economic downturn, the endowment would not be able to fulfill its promise of its stewardship for future generations.

Even through the early 2000s financial crisis and the economic downturn of COVID-19, the smoothing formula has kept endowment spending values safe from knee-jerk reactions.

"The approach is disciplined and emphasizes staying the course through turbulent markets and avoiding reactive decisions during downturns," Rooney wrote. "The University can tolerate significant short-term volatility in Endowment performance and stay focused on the long-term as the spending policy's smoothing rule serves to transmit more gradual adjustments into the budget."

According to Hetherington, the liquidity for endowment spending comes from cash that the YIO plans to make sure is available to hand over to the university. That cash comes from a variety of sources, he said, such as interest payments, rental income distributed from real estate partnerships and other distributions from illiquid partnerships due to sales of underlying private assets.

The Yale Investments Office is only one of the parties that controls how the endowment is funded and how its revenue is disbursed. The YIO invests endowment funds, but donors supply those funds and the Yale Corporation, in response to recommendations from administrators and staff experts, sets the formulas that the university uses to calculate what funds they use and when.

Much of the final of the final decisions is not up to the corporation or the investments office. A majority of Yale's endowment -- 75 percent -- is made up of restricted funds, meaning donations intended to serve a specific purpose. According to an email from a Yale Development representative, a donor may choose to make a donation of any amount that is either completely unrestricted or is designated to a particular area of the university, such as a college or a school. Some contributions are donated for immediate use, meaning they must be spent in their entirety in the year they are donated to Yale. Otherwise, donors can contribute financially in the form of an endowed fund, which is a contribution to the endowment for the continued stewardship of a certain part of the university or the university itself.

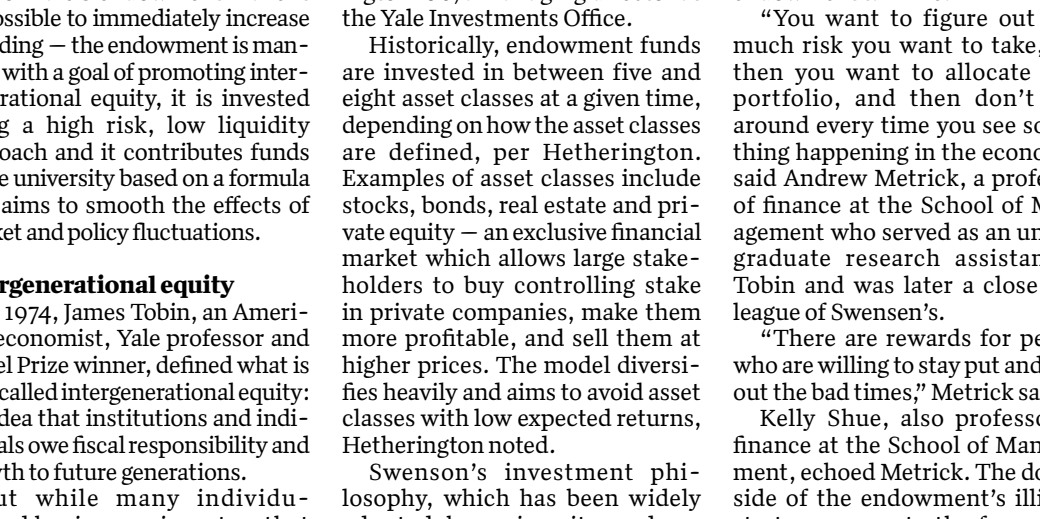
In accordance with the concept of intergenerational equity, endowment managers must balance the immediate demands of the university's growing student population with their responsibility to the future Yale. Even if endowments were "massive, unrestricted piles of money," long-term priorities prevent reactive endowment spending changes, wrote Rooney. The smoothing formula, and the investment values behind it, are the reason the endowment does not change the percent of endowment revenue it contributes to the budget on a year to year basis.

"We have a diversified and resilient investment strategy that has enabled us to grow the Endowment in a variety of economic climates," Rooney wrote. "Unfortunately, though, we do not expect to be able to mitigate the full financial impact of the tax increase."

Yale's endowment is not designed to contribute the same funds to Yale's budget while taking an 8 percent cut from their revenue. The new tax will require the University's budget to adapt "if Endowment spending is to remain sustainable," wrote Rooney.

The Hall of Graduate Studies, the central tower of the Humanities Quadrangle, was named Swensen Tower in honor of Yale's longtime chief investment officer.

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Yale's investment strategy focuses on keeping returns steady over a long period of time.