



NORTHERN
TRUST

POLICY PRESSURE & PORTFOLIO PRECISION:

How Not-for-Profits Can Prepare for
What's Next

The Shifting Policy Landscape

U.S.-based endowments, foundations and healthcare organizations today face an uncertain investment landscape driven by market volatility and potential governmental policy changes.

The U.S. endowment tax — introduced under the Tax Cuts and Jobs Act (TCJA) of 2017 — imposed a 1.4% tax on the net investment income of private colleges and universities with more than 500 tuition-paying students and endowments exceeding \$500,000 per student. To date, 56 institutions have been impacted. But that may change.

With the Act set to expire at the end of 2025, the House of Representatives Ways and Means Committee introduced a draft of the Make American Families & Workers Thrive Again tax bill in early May 2025. While the centerpiece of the bill is an extension of the TCJA, the proposed legislation contains several notable new provisions aimed to increase the tax rate and broaden the institutions subject to it. This could significantly raise the financial burden on a larger number of endowments and private foundations.

Simultaneously, reduced federal funding — from student aid to research grants — and executive orders targeting private foundations are reshaping the financial environment for mission-based institutions. Finally, healthcare organizations may also be impacted with reduced funding for their operations.

While some are ramping up fundraising, a growing number are preparing to close budget gaps through expense control and portfolio rebalancing. The need for greater agility, liquidity, and operational resilience has never been more urgent.

Considerations in a More Complex Environment

1. Liquidity Management Is Crucial

In this more complex environment, asset owners are seeing urgency in managing their liquidity. In fact, in a recent [peer study](#) conducted by Northern Trust of 180 global asset owners, 56% of endowment and foundation respondents noted that liquidity has become more important to their investment strategy in the last 12 months.

To navigate a more uncertain funding environment, many institutions are already increasing cash reserves (57% of the survey respondents have made this change) and diversifying sources of liquidity. Having diverse portfolios is key as recent market volatility has altered perceptions of liquidity instruments that were considered safe and low risk. Some tactics include:

- Issuing debt to buffer operating shortfalls
- Selling private equity holdings in the secondary market
- Adapting their approach to investment policy implementation – evaluating the role of ETFs or utilizing derivatives or synthetic instruments – while also weighing potential tax implications.

A more dynamic, diverse liquidity management strategy is essential — one that enables real-time decision-making and supports institutional flexibility.

2. Tax Pressures May Shift Portfolio Design

If tax rates increase, institutions will face higher required rates of return. In addition, if the threshold for eligibility drops more institutions will be impacted. With policy changes still being discussed, approaches to mitigate the tax impact are still in their infancy. This may push investors further into private markets — raising exposure to illiquid assets. Alternatively, they may reassess and increase their allocations to public markets, where liquidity is more readily available and can be optimized, and where there is the ability to factor weight and tilt.

If portfolio allocations are impacted by legislative changes, endowments and foundations will want to consider:

- Reallocation of their risk budget
- Utilizing different vehicle types within their private and public allocations, ie., ETFs, total return swaps, zero coupon treasuries, tax-efficient fund structures
- Enhanced modeling of liquidity and tax efficiency – 36% of survey respondents have employed systemized tracking of liquidity terms in response to their increased focus on liquidity.

3. Operational Complexity Will Intensify

When asked about internal and external investment challenges in the Northern Trust peer study, 36% of endowments and foundations cited “being able to optimize asset allocation strategies” as a top challenge over the next 12 months, tied with “increasing complexity of risk management”. 48% noted that domestic political instability was a top external investment challenge. New rules will require changes to how investment offices track, report, and manage portfolios, including heightened focus on tax liability:

- Separate tax books of record for reporting
- Real-time visibility into liquidity, leverage, and derivative usage
- New compliance workflows tied to evolving regulatory oversight
- Greater demand for cross-jurisdictional tax expertise

For smaller investment teams, these shifts may exceed internal capacity — accelerating demand for outsourced partners or an OCIO model. Others may make the decision to insource their asset management where tax-advantaged trading can be better managed versus using an external manager.

How Northern Trust Can Help

Liquidity Solutions Designed for Institutions

Whether supporting capital calls, redemptions, or operational flexibility, we offer:

- Money market funds and tailored liquidity portfolios to reduce overall risk to a portfolio and provide more flexibility and liquidity
- Treasury management and cash deposit solutions to support operational needs
- Securities finance and sponsored repo programs to optimize cash efficiency

All backed by tools that help investment teams monitor, model, and manage liquidity, as well as a specialist team to support their requirements.

Tax-Aware Investment Expertise

Northern Trust Asset Management offers Tax Advantaged Equity (TAE) strategies that are uniquely positioned to meet the dual needs of risk-managed equity exposure and after-tax performance — especially critical for entities now facing increased tax burdens.

- Active tax loss harvesting to seek more alpha
- Dedicated portfolio managers for greater customization and oversight
- Designed to complement or replace high-cost active equity exposures
- Transparent reporting to show realized tax alpha

We also offer custom taxable fixed income strategies that align with income needs while minimizing federal and state tax impact.

Global Fund and Structure Expertise

Our Fund Services team delivers flexible, jurisdiction-aware investment structures to support tax efficiency, operational simplicity, and investor needs — especially as more institutions consider open-ended or evergreen solutions. We have seen clients work with our specialized teams to derive maximum efficiency from available tax incentives and to maximize protection of return on assets.

As an example, the Irish Collective Asset-Management Vehicle (ICAV) is the subject of growing interest from global investors as a highly-suitable vehicle for supporting a multitude of investment strategies. The ICAV provides access to Ireland's extensive double taxation treaty network, covering 73 countries, including most European, Asian, and Latin American investment locations. The primary benefit of this network is to allow the ICAV to qualify for reduced rates of withholding tax under many of Ireland's double taxation treaties. In addition, the ICAV's status as a resident of a treaty jurisdiction enables it to access several domestic exemptions from source country taxes in many common investment locations.

Northern Trust is one of the market leaders in the tax transparent funds ("TTF") market, allowing asset managers and asset owners to pool assets from investors domiciled in different countries resulting in economies of scale whilst minimizing tax drag in up to 24 investment markets. The Fund Services TTF platform supports Irish CCFs, Luxembourg transparent FCPs, Dutch transparent FGRs and the UK ACS.

Operational Infrastructure that Evolves with You

We support institutions preparing for a higher standard of reporting, transparency, and tax awareness through:

- Tax book of record services built for complex endowment and foundation portfolios
- Regulatory-ready workflows supporting derivative usage, liquidity stress testing, and new compliance regimes
- Front Office Solutions: a powerful, multi-asset class analytics platform for full transparency across internal and external managers; Supports complex ownership structures and evolving asset allocations; Empowers investment offices with real-time decision support

The Bottom Line

Today's not-for-profit institutions face unprecedented challenges — and opportunities. As tax policy, market structure, and liquidity needs evolve, institutions need flexible partners that can help them support their mission so they may serve their constituents, their communities and the world.

To Learn More

To find out more about how Northern Trust can support your organization, please contact your local Northern Trust representatives, business development teams or visit:

- [A-Suite by Northern Trust](#)
- [A-Suite by Northern Trust | LinkedIn](#)
- [Northern Trust Asset Management](#)
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