

How Effective Liquidity Planning Protects & Strengthens Your Mission

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Liquidity planning is a critical component of an institution's long-term sustainability. It helps ensure an organization has sufficient accessible cash or liquid assets to meet both expected and unexpected needs without disrupting its long-term investment strategy or mission. With thoughtful preparation, organizations can operate smoothly and avoid rushed decisions that may compromise mission delivery or long-term performance.

While investment returns often take center stage for investment committees, liquidity planning can be an equally important, yet sometimes overlooked, element of financial stewardship. Thoughtful liquidity planning supports both day-to-day operations and long-term mission fulfillment. Achieving the right balance between near-term cash needs and long-term investment goals requires intentional, strategic planning grounded in a clear understanding of several key components:

- **Operating Cash Flow:** The routine cash needed to fund core operations, program delivery and administrative responsibilities that keep the organization functioning effectively.
- **Spending Policy Requirements:** The guardrails for an institution's decision-making, providing committees a clear framework for determining annual distributions or withdrawals needed to support the mission in line with policy and regulatory expectations.
- **Emergency Reserves:** The financial buffer, giving the organization the flexibility to manage unplanned expenses or revenue gaps while keeping its investment strategy intact.
- **Capital Commitments:** The future contributions to illiquid investments, such as private equity or real estate, which require disciplined planning to help ensure the organization can meet these obligations without putting pressure on its operating or reserve liquidity.

Carefully considering these elements strengthens investment decisions and supports long-term financial stewardship. A well-aligned liquidity strategy helps ensure nonprofits can reliably fund programs, grants and capital expenditures while maintaining flexibility to pursue growth opportunities. Planning for cash needs, including avoiding liquidating assets to fund distributions during periods of significant market volatility, helps protect the endowment's corpus and reduces unnecessary pressure on the portfolio.

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Identifying Liquidity Risks

Liquidity risk management enables committees to help protect the organization's ability to fund its mission now and in the future. Understanding these potential challenges is a crucial step in developing strategies that support financial stability. The following elements highlight several common factors that can contribute to illiquidity risk.

Over-concentration in illiquid assets

Endowments and foundations commonly allocate to alternative investments such as private equity, private real assets and other illiquid strategies. While these assets can contribute meaningfully to portfolio growth, these allocations also reduce flexibility. Liquidity lockups, capital calls and limited redemption windows can create challenges when the organization needs readily accessible funds to support operations or unplanned distributions. A notable example is Yale University's "[Project Gatsby](#)",¹ in which the institution initiated the sale of up to \$3 billion in private equity and venture capital stakes to meet liquidity needs and rebalance the portfolio. Shifts in federal funding and other factors increased the demand for liquidity, which resulted in the University's first-ever sale on the secondaries market. Although selling private assets on the secondary market is not uncommon for investors, this case illustrates how alternative investment illiquidity can complicate the ability to adapt to changing circumstances or adjust long-term allocations and require careful consideration.

Misalignment between spending policy and portfolio liquidity

A well-designed spending policy must be supported by a portfolio with sufficient liquidity to fund it. Challenges arise when spending expectations exceed the portfolio's liquidity profile, such as relying on steady annual distributions while holding a large share of illiquid or long-dated investments. This mismatch can create pressure during volatile markets or force short-term adjustments that undermine long-term strategy. Capital expenditures can introduce additional strain by creating off-cycle cash needs. For example, when a university endowment purchases a building for student housing, the transaction may require a larger distribution in that year while simultaneously reducing liquidity by converting cash into a long-term illiquid asset.

Underestimating cash needs during volatile markets

Periods of market stress can create immediate liquidity pressure. Nonprofit organizations often underestimate how market volatility can reduce donations, accelerate spending needs or impact grant and reimbursement cycles. At the same time, declining portfolio values limit the ability of an organization to liquidate assets without realizing losses. Although not all situations can be prevented, careful planning and thoughtful timing can help ensure the organization can meet required outflows without disrupting its long-term investment strategy. Gradually raising cash in smaller, scheduled transactions throughout the year helps maintain stability and avoids large distortions in the asset allocation. Proactively communicating anticipated cash needed to asset managers further supports effective planning by allowing portfolios to be positioned appropriately for upcoming redemptions.

¹ [Yale soon to sell nearly \\$3 billion in private equity](#)

Frameworks and Tools for Strengthening Liquidity Decisions

Investment committees can mitigate liquidity risk by implementing tools and frameworks that strengthen liquidity oversight and support long-term strategies. The following approaches offer practical tools to help an organization prepare for both expected and unexpected financial demands.

- **Liquidity Tiers & Asset Allocation:** A tiered liquidity framework segments assets into various pools based on expected time horizon.
 - **Operational liquidity** covers the day-to-day and near-term cash needs of the organization, such as payroll, program expenses, administrative costs and other routine obligations. These funds are typically held in highly liquid vehicles like cash or money market funds to help ensure immediate accessibility.
 - **Short-term liquidity** supports anticipated cash needs over a one- to three-year horizon, including grant cycles, scheduled distributions or planned capital expenditures. This tier is generally invested in low-volatility, high-quality assets such as investment-grade fixed income or other liquid securities that provide stability and dependable access to funds.
 - **Long-term liquidity** represents the portion of the portfolio dedicated to long-term strategic objectives and serves as the institution's growth engine. This tier is intended to remain invested to allow compounding over time, with minimal disruption for distributions. As a result, it typically holds a higher allocation to equities, alternative investments and other illiquid or growth-oriented assets.
- **Forecasting Modeling & Stress Testing:** Forecasting expected expenses helps nonprofits plan for and schedule upcoming withdrawals more effectively. By incorporating spending assumptions, historical trends and economic scenarios, organizations can better anticipate cash needs. Liquidity stress testing provides added insight by illustrating how the organization's financial position may respond under adverse or unexpected conditions, such as a significant market downturn.

Reinforcing the link between liquidity planning and mission success is essential for nonprofit leaders. A thoughtful liquidity strategy helps ensure an organization can fund its programs, fulfill grant commitments and respond to unexpected needs without compromising long-term investment goals. When liquidity is managed proactively, nonprofits are better positioned to maintain stability, take advantage of strategic opportunities and preserve the endowment's purchasing power for future generations.

About the Author



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Marycarmen services institutional clients by providing counsel and guidance on portfolio design, asset allocation, manager selection, investment policy statement review and overall performance monitoring. Prior to joining the firm in 2022, she was an Accountant at Harbor Capital Advisors Inc. focused on regulatory reporting. Marycarmen earned a BS degree in Finance from the University of Illinois at Chicago and is a CFA Level 1 Candidate. In her free time, Marycarmen enjoys visiting art galleries and museums, traveling and trying new restaurants.