

Alts May Be Headed to DC Plans—But Experts Urge Caution Before a Big Move

A panel of retirement and investment professionals stated during a webinar that private assets can be included in defined contribution plan menus, but necessitate a slow and documented adoption process.

Reported by [JAMES VAN BRAMER](#)

Defined contribution plans can indeed offer alternative investments as part of their investment options.

“Yes, they can,” stated Marcia Wagner, founder of and managing partner in the Wagner Law Group, at the beginning of a webinar on the topic. While the possibility exists, a panel of experts noted that it will take time to thoroughly explore the ways that DC plan sponsors, if they have not incorporated private assets already, can exercise the option.

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During the hour-long discussion, speakers noted that the best fit for alternatives in DC plans is a modest allocation within professionally managed multi-asset products—especially target-date funds, as experts have previously mentioned.

The panelists argued that private markets have the potential to expand the range of investment opportunities and better diversify portfolios. However, they emphasized that plan fiduciaries must thoroughly document their decisionmaking process; comprehend valuation and liquidity mechanics for the asset classes they decide to add; and be prepared for increased scrutiny and possible litigation.

Wagner stated that although investment menus are evolving, the fiduciary standard remains unchanged. She referenced a 1996 Department of Labor letter on derivatives, highlighting that alternative investments must adhere to the same prudence standards under the Employee Retirement Income Security Act as traditional ones, requiring fiduciaries to possess a higher level of sophistication.

She pointed out ongoing risk factors, including cost, volatility, liquidity and litigation, urging sponsors to assess structure, fees, risks and operations upfront, followed by thorough documentation and ongoing monitoring. Additionally, she highlighted practical challenges, including whether recordkeepers can manage non-daily-valued assets on their platforms and what it would do to associated costs.

Wagner highlighted [the executive order issued in August by President Donald Trump](#) that encouraged expanded private market exposure and floated the idea of [a safe harbor](#). However, she warned that establishing a safe harbor for alternatives would be “pretty difficult” for regulators and, given shifting administrative law standards, potentially subject to challenge.

Instead, Wagner said that the providers of pooled employer plans and 3(38) managers would likely be early venues for expanding alternative assets. Because they utilize professional managers and plan sponsors, as opposed to traditional single-plan sponsors, PEPs and 3(38)s already centralize expertise and monitoring for plan sponsors considering private investments.

Apollo Stresses Private Assets’ Benefits

From the market side, Neil Loftus, a principal in Apollo Global Management who covers private asset sales for Apollo in the Midwest, suggested that alternative assets be rethought of as assets that are “simply non-public.”

He argued that expanding beyond public markets can reduce investors' concentration risk in cap-weighted indexes and improve portfolio efficiency over time. Loftus stressed that alternatives should be thought of as investment vehicles that are "expanding our strike zones."

He admitted that private asset classes are not a panacea. Still, they have given investors an opportunity to enhance portfolios, as seen by evergreen private-market funds that offer periodic liquidity and continuous deployment.

State Street's Framework

James Ryder, a vice president at State Street Investment Management and an investment strategist within its defined contribution team, laid out a three-part framework—desirability, investability and suitability—that he said his firm uses to evaluate any asset class for inclusion in TDFs.

According to State Street's modeling, including even a modest private-markets sleeve in a TDF, typically capped at no more than 15%, can yield favorable outcomes. However, the implementation hinges on structure: diversification and scale to support periodic liquidity; robust third-party valuation to produce a daily net asset value at the fund-of-funds or collective trust level; and fee reasonableness tested against similar and appropriate benchmarks—not an S&P 500 index fund, which, of course, lacks private market allocations.

Ryder said the question of liquidity to accommodate participant-level trading can be supported because the bulk of a TDF remains in liquid public markets; the tighter constraint is plan-level redemptions and rebalancing, which depend on each private vehicle's cash generation and quarterly liquidity limits. Large exits might require multiple quarters and advance notice, making manager diversification and fund size critical.

Despite this, some critics of private investments in DC plans note that offering liquidity could interfere with one of the reasons the investments have yielded high returns: the funds' "illiquidity premium." In other words, since private investments lack liquidity, investors receive additional returns that compensate for not being able to easily sell or trade them.

Panelists also cautioned on timing and dispersion. After a long cycle favoring risk assets, starting conditions for new entrants into private market assets may be less forgiving; in private markets, the performance gap between top- and bottom-quartile managers is wide. That raises the stakes for monitoring in DC plans, where fiduciaries must replace laggards, even if there are redemption constraints.

On participant access pathways, Wagner noted that embedding exposure within a TDF or managed solution avoids individual accredited-investor hurdles that can arise if sponsors attempt to offer stand-alone private funds or route participants through brokerage windows to buy private assets, which also raise nondiscrimination and operational concerns.

Nonetheless, regulators have until February to provide guidance, assuming no delays. It is unwise to consider adding investments to retirement plans until that guidance is released, experts warned.

As moderator Jonathan Nolan, a principal in and vice president of investment consulting at Francis LLC, put it, "Should you do this?" the answer "is not 'No,' but we would say just not quite yet."

Tags

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