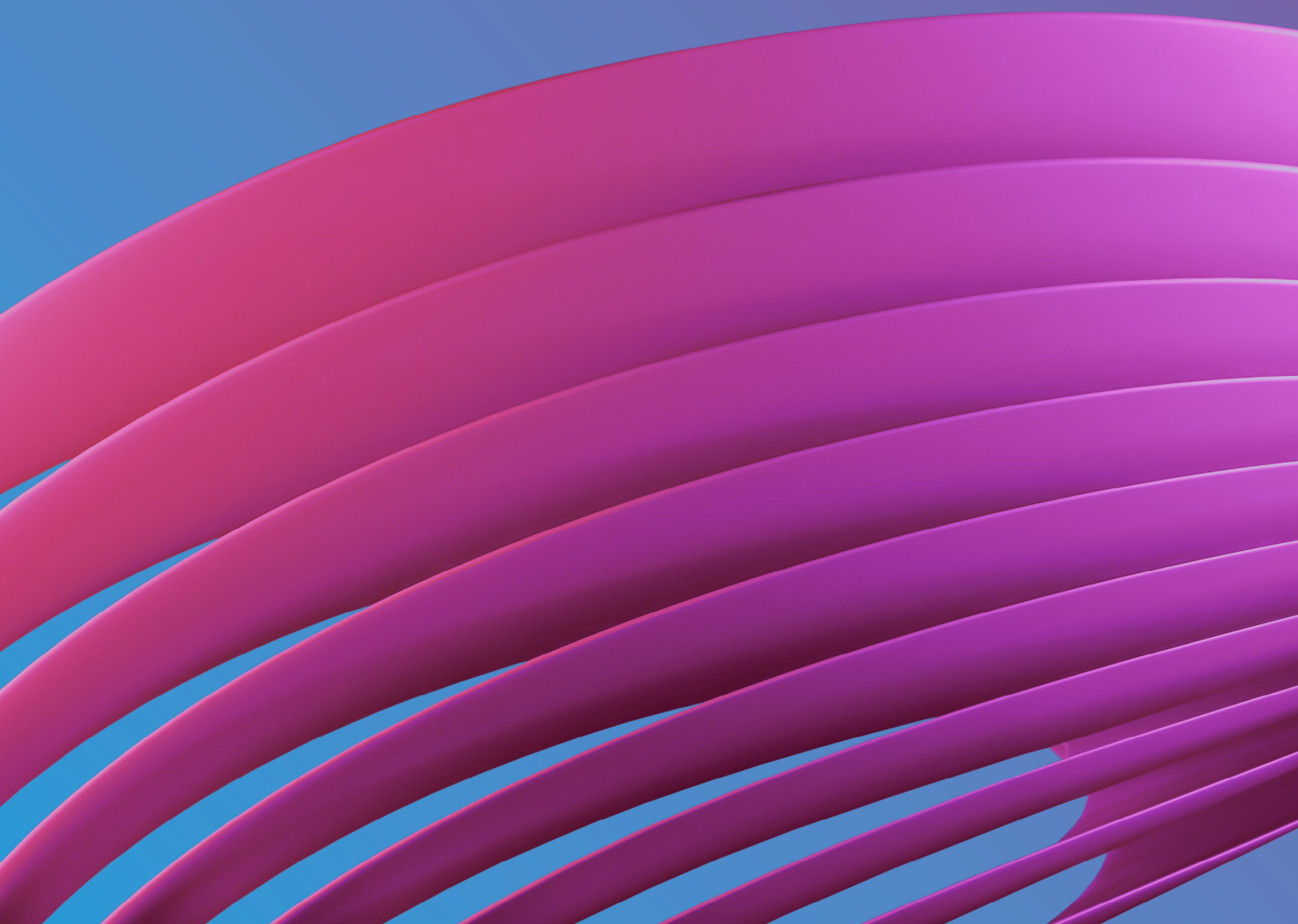


Looking to the future

The evolution of private investments
in U.S. defined contribution plans



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Introduction

Private investments have long been an important component of institutional investment management, providing U.S. institutional investors, such as pension plans, endowments and foundations with benefits over time. These benefits range from diversification and reducing total portfolio risk to potentially enhancing investment returns; however, as with any investment, there are related risks that institutional investors must manage.

U.S. defined contribution (DC) plans have not adopted private investments to the same extent as other institutional investors, and where there is adoption, it is predominantly through private open-end real estate vehicles in a multi-asset fund structure (e.g., target date funds). The case for private investments is supported by empirical evidence in various research publications. However, complications around implementing private investments in DC plans have the potential to erode some of the benefits. When coupled with the seemingly omnipresent litigation risk for DC plans, many such fiduciaries have refrained from exploring private investments at all.

One of the hurdles for DC plan fiduciaries is a lack of familiarity with private investments given how different they are from the public market investments that dominate DC plan menus. This knowledge gap, administrative complexity

and fear of litigation have led to a general hesitancy to explore private investments. Globally, we have seen DC-type plans (e.g., Australian superannuation plans) include allocations to private market investments, and with its advent of pooled employer plans, the U.S. may follow suit. While we recognize that some U.S. DC plans may never invest in private markets, education on the topic is a worthwhile exercise.

The purpose of this paper is to create familiarity with private investments, so that DC plan fiduciaries can make an educated decision as to whether to explore them further. This paper will cover the bulleted list of topics below as we explore why U.S. DC plans have been slow to adopt private investments before concluding with a case study and a framework for DC plan fiduciaries to evaluate private investments.

- What are private investments?
- The potential benefits of including private investments in a DC plan portfolio
- Challenges and considerations when including private investments in a DC plan portfolio
- Current utilization of private investments within DC plans
- Where could private investments fit in DC plan portfolios?

1

What are private investments?

In the most basic sense, private investments are financial assets that are not widely available on a listed exchange or other active marketplace. They are directly negotiated transactions between two or more parties. Private investments (e.g., private equity, debt, real estate, or infrastructure) diversify portfolios composed of their publicly traded counterparts and present opportunities to potentially improve investment performance through active management (private investments are by their very nature not available through a replicable index). However, private markets are often difficult to transact in and consequently come with higher fees, liquidity restrictions, and complexity. This can make implementing private investments in any context

challenging, but especially so for DC plan fiduciaries.

Private investments are a subset of alternative investments, which also include hedge funds (Figure 1). Mercer views hedge funds as a potentially beneficial risk-reduction tool, typically funded through bonds when used in DC multi-asset portfolios. We deprioritize them for DC plans, however, which often have a limited overall risk and fee budget and where bond portfolios are often used to facilitate a decumulation of assets in addition to being a risk mitigator. For more insights into alternatives, read Mercer's Top Considerations for [Alternatives](#). However, for the purposes of this paper, we will focus on private investments.

Figure 1

Private markets

Private market investments encompass any assets which are not tradeable on a public exchange. Instead, the purchase and sale of private market assets are privately negotiated.



Private equity

Private equity broadly refers to investing in privately owned companies through a negotiated process. Most strategies involve a transformative, value-add active strategy.



Private debt

Private debt broadly refers to a privately negotiated lending agreement between a lender and a borrower obtained outside of the public market, sometimes known as "Direct Lending".



Real assets

The real asset universe consist of a spectrum of sub-asset classes: Real Estate, Infrastructure, and Other Real Assets. Differences exist in economic drivers and size of regional opportunity sets.

- **Real estate:** Real estate broadly refers to an equity or debt interest in tangible property consisting of land, buildings and the improvements of those. The four major sectors are office, residential, industrial, logistics and retail. Strategies by increasing risk and return: core, core-plus, value-add and opportunistic.
- **Infrastructure:** Infrastructure broadly refers to the basic physical and organizational structures needed for the operation of a society or enterprise.

Hedge funds

Hedge funds are not an asset class, but rather a collection of heterogeneous investment strategies which can be utilized to gain exposure to a variety of non-traditional risks ("hedge fund risks").



Absolute return oriented

Expected to produce consistent returns due to diversification across strategies, plus the ability to tactically shift allocations between strategies as the opportunity set changes.



Security selection strategies

Expected to produce strong returns over a full cycle, but with less consistency than multi-strategy funds.



Diversifying strategies

Expected to provide useful diversification or protection against systemic risk.

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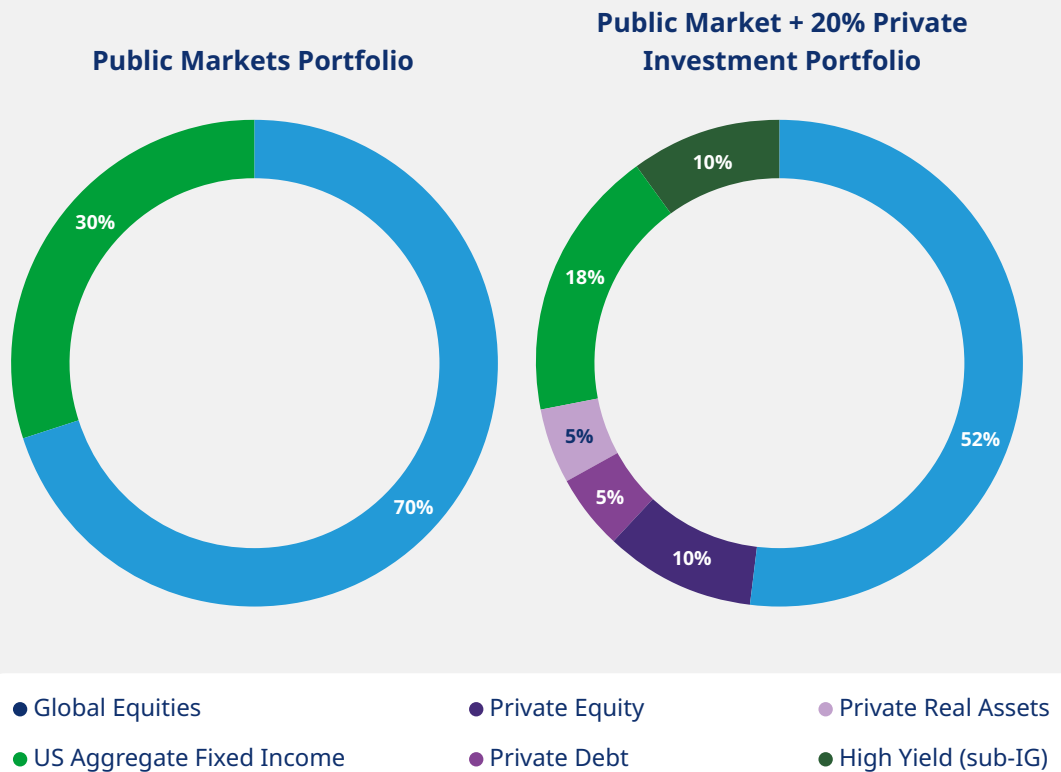
The Potential Benefits of Including Private Investments

Private investments have the potential to materially change the risk-return tradeoff embedded within investor portfolios. They may provide an elevated return expectation relative to their liquid, publicly traded counterparts, as demonstrated by Mercer's capital market expectations, in part due to their illiquid nature (illiquidity premium), financing structure, longer investment time horizon, and non-public nature. To demonstrate these relationships, we provide two illustrative portfolios below (Figure 2), both with and without private investments. Portfolios with private investments have the potential to offer a more efficient risk-return profile (higher projected return with the same projected risk).

We are not alone in these modeling outcomes and recognize that many industry publications have also identified this risk-return relationship. Two such examples include: *Why Defined Contribution Plans Need Private Investments* by the Defined Contribution Alternatives Association and Institute for Private Capital, and *The Impact of Adding Private Equity to 401(k) Plans on Retirement Income Adequacy* by the Employee Benefit Research Institute (EBRI). However, it is critical to note that these projected risk-return benefits could potentially be compromised if the liquidity structure is materially changed (which we will explore further). Finding the right balance is crucial to realizing the potential benefits.

Illiquidity Premium: the potential for additional return to compensate and investor for the additional risk of tying up capital in a less liquid asset.

Figure 2



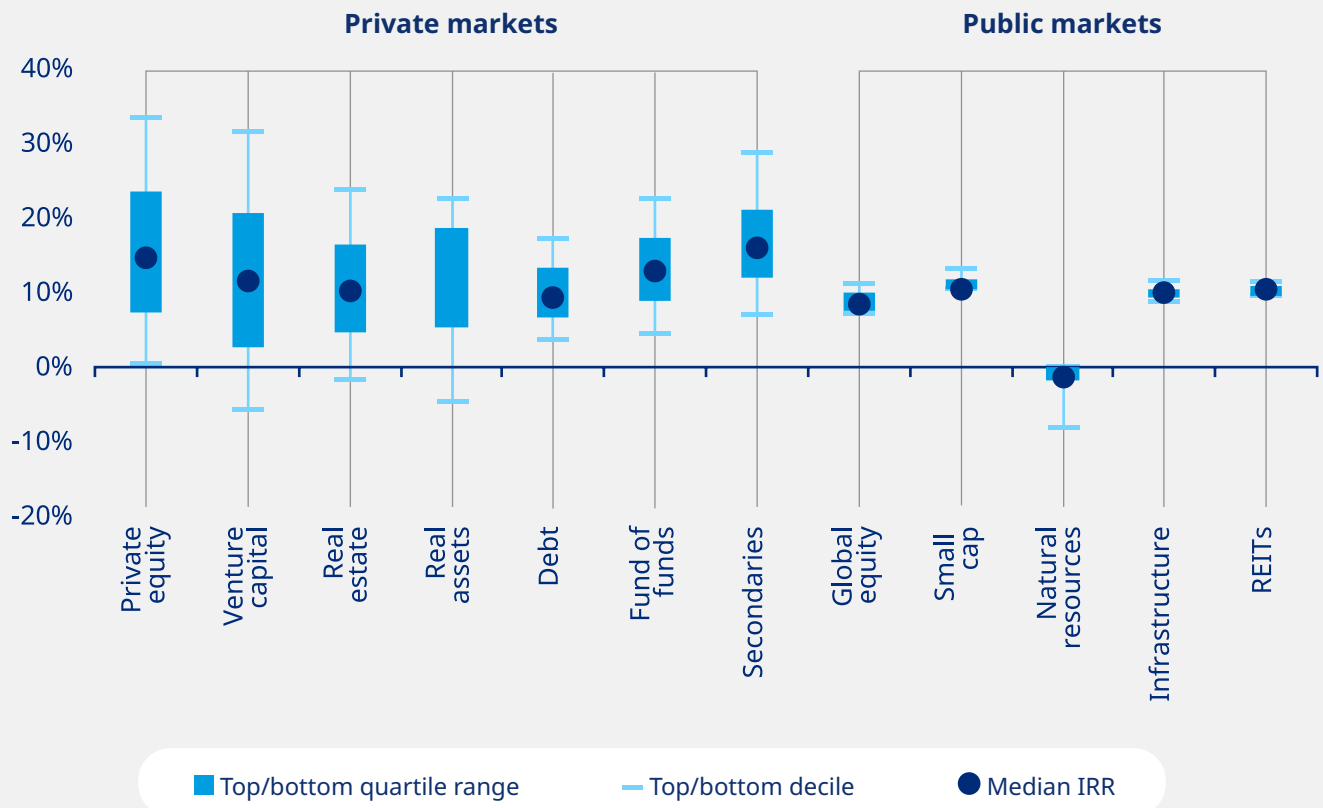
	Public Markets Portfolio	Public Market + 20% Private Investment Portfolio
Expected Risk (%)	13.1%	13.1%
Expected Return (%)	6.1%	7.1%

Figure 2 is provided for illustrative purposes only and does not constitute a portfolio recommendation. There can be no assurance that these results can be achieved. Actual results are likely to vary. Expected risk reflects annual standard deviation and expected return reflects asset-class only (no alpha) expected returns for traditional asset classes and includes alpha assumptions for private investments for a 20-year forward-looking period using Mercer’s Capital Market Assumptions as of January 2024. Calculations performed by Mercer are as of 02/29/2024 and were performed on 03/08/2024. Asset class expected returns are hypothetical, shown for illustrative purposes at the general-market level only. This is not meant to represent Mercer’s performance or any actual portfolio.

The portfolios in Figure 2 also demonstrate increased diversification across different asset classes, meaning that the return and risk sources in the *Public Market + 20% Private Investment Portfolio* are more varied.

These public and private asset classes will perform differently across numerous market environments as inferred in Figure 3, which illustrates the return dispersion across various private and public markets.

Figure 3



Source: PitchBook and Mercer analysis. Data as of March 31, 2023. Dispersion of returns calculated using a 23-year lookback period except for natural resources (10-year), infrastructure (10-year) and REITs (18-year).

DC plan participants have most of their retirement assets concentrated in public market equities. According to a study conducted by EBRI¹, 97% of 401(k) participants had at least some investment in equities, with an average allocation to equities of 71%. Younger participants tend to have more money invested in equities with 91% of 401(k) participants in their 20s holding 80% or more of their 401(k) balance in equities. For participants in their 60s, over 80% held

at least 40% of their 401(k) balance in equities. Most DC plans offer only publicly traded securities as a source of diversification to equities, such as bonds. While bonds can be a good source of diversification, there are periods, such as the recent period beginning in 2021, in which equity and bond correlations become positive. During these periods, and in various other market environments, having private investments as an additional diversification source can be useful.

1. Employee Benefits Research Institute Issue Brief No. 606, *401(k) Plan Asset Allocation, Account Balanced and Loan Activity in 2022*. Holden, Bass, Copeland.

The following table (Figure 4) summarizes correlations between major private market asset classes and U.S. All Cap Equity as derived from Mercer's July 2024 Capital Market Assumptions. The lower the correlation number, the greater the potential for diversification of returns. This table illustrates that diversifying into private market asset classes, like real estate, private debt, infrastructure and, to a lesser extent, private equity, may improve return source diversification compared to a portfolio predominantly invested

in U.S. public equities. For investors with a limited risk or fee budget, or in the early stages of building out private investments, this table also supports prioritizing private real estate, infrastructure or credit over private equity, given the greater diversification benefits. We recognize that there are publicly traded equivalents to real estate (REITs) and infrastructure, but they do not provide access to direct hard asset exposure, which leads to better volatility reduction in addition to lower correlation.

Figure 4

Correlation	US All Cap Equity
Private Market	
US Real Estate – Core	0.50
Private Debt – Core	0.43
Private Equity – Total	0.85
Infrastructure – Core	0.52
Public Market	
US Aggregate Fixed Income	0.12
Listed Infrastructure	0.74
Global REITs	0.71

Data and calculations as of June 30, 2024. Correlation assumptions are based more directly on historical experience except in cases in which the market environment has clearly changed.

Diversification can also be examined from a coverage of capital markets perspective. While we believe private investments across a broad spectrum (e.g., equity, debt, real estate, and infrastructure) help to truly diversify investment allocations, looking at the breadth of companies that are public versus private illustrates the extent to which private investing can potentially improve diversification. For example, just over 7% of companies with annual revenues of between \$10 million and \$1 billion are publicly traded². This illustrates that private equity firms have a much larger pool of companies to potentially invest in (i.e., almost 93% of companies are not publicly traded).

While we believe private equity is less attractive from a pure diversification perspective (versus some other private investments), when working with portfolios predominantly invested in public equities, these statistics highlight a critical point: the opportunity set of investing only in public markets is limited.

As illustrated, the potential for improved risk-adjusted returns and diversification of return sources, which may improve return consistency, are two key factors that DC plan fiduciaries should examine when considering the merits of private investments.



2. Pitchbook, July 2, 2024.

3

Challenges and Considerations When Including Private Investments in a DC Plan Portfolio

While private asset classes are often additive, they are not a panacea for retirement portfolios. They typically require the ability to accept complexity, risk, higher fees relative to public markets, and/or illiquidity. The specific associated risk profile varies between, and within, each asset class as there are numerous approaches available to investors (i.e., within real estate, there are “core”, “core-plus”, and “value-add” options). The risk profiles generally share some degree of operational complexity derived from contracting, trading, managing cash flows, and liquidity in addition to the investment complexity for an investor venturing beyond public markets. This complexity increases the level of resources and expertise required to manage investment portfolios with private market exposure. Below, we examine some of these considerations in more detail.

- **Liquidity:** DC plans operate in a daily valued environment to generally enable participants to transact their portfolios when the public markets are open. However, private investments are not daily valued or traded because they are not listed on exchanges, and many deploy invested capital over a long time horizon (e.g., 1-3 years). Many private market investments require a series of capital calls so that deals (investment opportunities with

companies) can be sourced and assets allocated among portfolio companies/investments. It then takes time for those investments to start providing a return on the original investment, as illustrated in Figure 5. Aside from liquidity issues, this structure can also create issues around how fairly participant capital is deployed, as well as how potential investment results are realized and experienced by participants.

Including private investments as a component of a portfolio (e.g., target date funds) and limiting the overall allocation of private investments (e.g., 10-20% of the total portfolio) allows for a substantial allocation to daily traded assets (which accommodate daily participant cash flows). Any specific target allocations or limitations on private investments should be customized and based on a participant cashflow needs analysis, including market scenario testing.

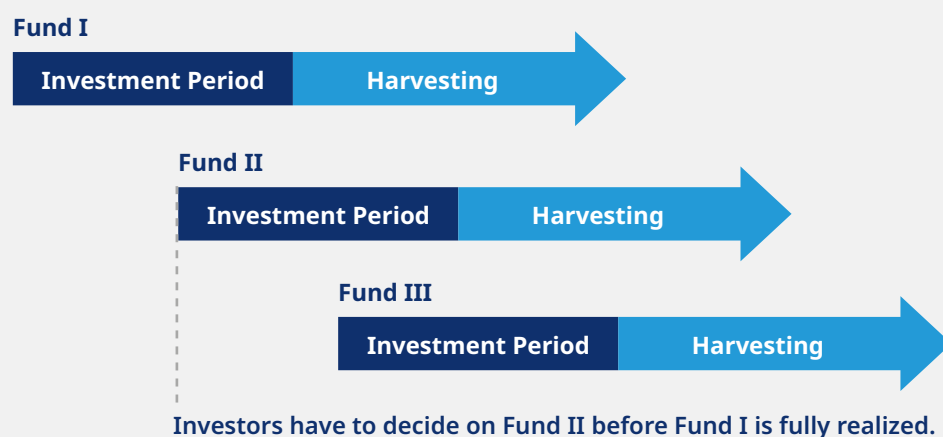
Embedding a liquidity sleeve earmarked for private investments can help manage capital calls, as well as participant-directed cash flows. For example, a dedicated allocation to a REIT fund can facilitate liquidity for a private real estate allocation. As noted at the outset of this paper, building liquidity should be done carefully and thoughtfully to manage the potential for sudden increases in liquidity needs while also avoiding total erosion of the benefits of private investments, which are partially derived from less-liquid structures.

Accessing private investments through a pooled, multi-investor fund structure (ideally customized for DC plans) or negotiating terms with investment managers to allow cash flow to occur across vintages of funds can create more flexibility and has the potential to solve for issues around the fairness of capital deployment and investment result realization. The topic of fairness is a nuanced one and is beyond the scope of this paper.

Overall liquidity structuring and management is an area where an OCIO (outsourced chief investment officer, also known as an ERISA³ 3(38) investment fiduciary) could help. OCIOs can assist in areas such as modeling target allocations, stress testing portfolio cash flows, structuring liquidity buffers and negotiating terms with managers, among other activities.

Even today, DC plans have exposure to securities and assets that may not be daily traded or valued (e.g. small private allocations within equity options, certain low volume fixed income securities, etc.).

Figure 5



A fund's investment period usually lasts 3-4 years, harvesting can take several years after the initial investment in a given company. Limited Partners (LP) commit capital to the fund (e.g., \$5 million), which is then drawn by the General Partner (GP) over the life of the fund for new investments and fees. Most of the commitment is drawn during the first three to five years as new investments are made.

Commitments are made to a fund by LPs over time, usually 12 to 24 months. After all of the commitments in the fund have been used for investments, the GP will raise another fund to continue making new investments. Thus, fund managers usually have several active funds from which they collect management fees and carried interest.

For illustrative purposes only. This graphic illustrates a typical investment cycle for a closed-end investment fund structure, which has a finite investment period and is one of the common vehicles for private market investments. Open-end investment structures do not have a finite investment period and represent an ongoing cycle of investment.

- **Fees:** Private market investments are more expensive than public market investments. Their fees typically contain multiple components. At a minimum, a private market investment fee often reflects a higher investment management fee due to the experience and capital intensity required (though the fee does vary by asset class). In addition, some private investments may also have a carried interest fee or profit-sharing component. The portion of carried interest or profit-sharing varies by asset type; however, the most commonly cited example is 20% of profits retained by the "general partner" upon achieving a stated target return level (hurdle rate).

The differentiated and multi-component nature of private investment fee structures is difficult to reflect in the daily NAV (net asset value) strike price (the price that is used to trade participant assets), in addition to not fitting neatly into required 404(a)(5) fee disclosures for DC plans. We are starting to see asset managers address some of these issues by excluding performance-based fees, as well as providing a daily NAV when creating DC-friendly private market products.

Carried Interest: portion of the fund profit that is paid to the General Partner (investment manager)

One key to managing fees is limiting private market investments to a small allocation of an investment portfolio. Doing this will automatically curtail the impact of the private market allocation on the overall weighted investment fees. Fiduciaries can also establish a fee budget for the overall portfolio, which will provide guideposts for prioritizing where assets are allocated to fit within the budget. For example, an overall fee budget could be established and specified in basis points, or as a percent increase from current fees, and the underlying assets could be allocated to investments with varying fees so that the total portfolio fee does not exceed the budget. One way to potentially achieve this is to employ passive investments where there is greater market efficiency (e.g., U.S. large cap equities) to offset the higher cost of private markets. Working with an OCIO provider may also help mitigate the impact of fees, as they may bring greater economies of scale and custom fee arrangements that are below published fee schedules.

- **Complexity:** Private market investments are complex in many ways, but most of the complexity for DC plans relates to the resources and expertise involved in the placement and administration of these investments. Placement refers to selecting and allocating to various private market funds, which requires deep knowledge and an ability to discern between managers' skill sets. Identifying skilled private market managers is another area in which an experienced OCIO provider can assist plan fiduciaries interested in private market investments.

There is additional complexity from an administration perspective. Communicating these investments to participants and working through recordkeeping and valuation challenges (private investments are not typically daily valued, but DC plans require daily valuation) are not as straightforward as other investment options. However, private market managers have made significant progress in understanding the DC industry and now provide communication collateral that can be used to help educate participants. Some managers have also implemented methods of providing a daily value on their funds that can be used to calculate NAV. However, even when an investment manager does not provide for daily valuations, pooling of private market assets and incorporation into a multi-asset fund structure (like a target date fund) can allow for daily valuation and transactions. While annual audits may be more cumbersome, in many situations, plan auditors have teams well-versed in private investments (due to their experience working with defined benefit plans that regularly allocate to private markets).

- **Litigation Risk:** Any paper on private markets would be remiss without addressing litigation as a risk factor for DC plan fiduciaries. Litigation risk, irrespective of private markets, is one of the key risks that DC plan fiduciaries face today, spanning from investments and fees to operational, cyber and data risks. In a recent PGIM survey,

48% of respondents cited litigation risk as a factor in not considering adding alternatives to their investment menu or target date fund⁴. We understand that litigation risk is a critical consideration that fiduciaries must examine and may preclude many from exploring private investments. Detailed conversations with ERISA counsel to better understand potential risks and how effective risk mitigation strategies may be is paramount. The Department of Labor (DOL) issued an Information Letter in 2020 explaining that ERISA does not preclude offering designated investment alternatives, specifically target risk, target date or balanced funds, with private equity components and provided a Supplemental Statement

in 2021. While private equity is one subset of private market investments, these communications from the DOL are important to consider when evaluating whether to incorporate private markets in DC plans.

ERISA requires plan fiduciaries to act prudently when selecting and monitoring investments. This includes conducting thorough due diligence, such as considering the risk and return characteristics of investments, and diversifying investment portfolios to minimize risk. Plan fiduciaries without the necessary skills, knowledge, and experience may need to consult outside experts.



4. DC Solutions: The Evolving DC Landscape. PGIM, April 2023.

4

Current Utilization of Private Investments Within DC Plans

DC plan fiduciaries have a history of offering asset classes beyond equity and bonds in DC plans. Real estate, commodities, treasury inflation-protected securities (TIPS), and natural resources can be found in many DC plans, both as stand-alone options and within target date funds. The illiquidity and complexity inherent in private investments have led to their reduced adoption as individual options within DC plans relative to other alternative investments, as demonstrated below. Nonetheless, we see private investments, predominantly open-end real estate, appear in DC plans within target date funds or similar multi-asset structures. We believe that the open-end vehicle structure (open-end funds are ongoing without a finite end to the investment period and have more frequent pricing (NAVs) and liquidity versus closed-end funds), coupled with the more consistent liquidity sources and potential diversification benefits, has led open-end private real estate to be more attractive to DC plans initiating private investments.

There are several off-the-shelf target-date fund providers that currently

include private investments as part of their asset allocation. Also, among those plan fiduciaries who have the resources to consider a custom target-date fund solution for their plan, exposure to private investments seems to be more prevalent.

According to a survey of plan sponsors conducted by PGIM in 2022, private real estate is one of the most common alternative investments offered within target date funds, with 9% of plan sponsors offering private real estate as part of their target date fund solution⁵. According to Mercer's 2024 Q1 target date fund survey, which is conducted quarterly, 11 of the 61 target date fund families included access to private real estate (18.0%).

The asset management industry has responded to the aforementioned challenges and lack of adoption by developing new fund structures with improved liquidity and accessibility. While we expect these new structures to increase adoption across DC plans, they are still relatively unproven across all asset classes excluding real estate.

5. DC Solutions: The Evolving DC Landscape. PGIM, April 2023.

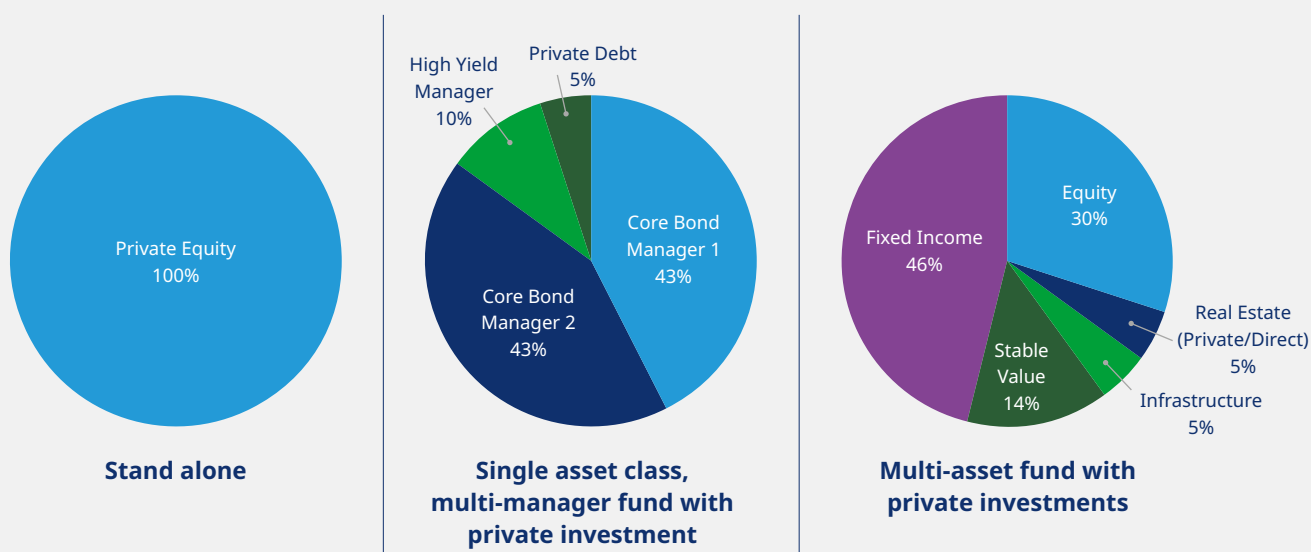
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Where Could Private Investments Fit in DC Plan Portfolios?

DC plan sponsors generally offer individual, asset class specific funds in addition to target date funds, which commonly serve as the Qualified Default Investment Alternative (QDIA). Some plans also offer a personalized managed account option. Further still, some larger plans build asset class specific or multi-asset class multi-manager funds to provide their participants with diversified investment strategies and a streamlined decision-making hierarchy. We anticipate that private investments will see a modest

increase in adoption in DC plans over time, but it is important to understand where and how they will fit. There are three implementation scenarios to consider (Figure 6): an individual, stand-alone private investment option; an asset class focused multi-manager option with inclusion of private investments; and a multi-asset option with the inclusion of private investments (e.g., target date fund).

Figure 6



This is an illustration of different structural portfolio implementations. It is not reflective of real portfolios nor does it constitute investment advice. Allocations may not add due to rounding.

Mercer views private investments offered as an individual, stand-alone investment option as a challenge to U.S. DC plan fiduciaries for the reasons mentioned above. While some innovative investment structures now enable private market stand-alone fund options, we have noted that those structures are still unproven. Participants may not understand how to build these funds into their overall portfolio. While not specifically prohibited by the DOL, there are considerable risks at both the plan sponsor and participant level in offering stand-alone private investment funds. We have seen very few sponsors adopt this path to date. If this approach is adopted, it may be best paired with a managed account to provide professional oversight and balance exposure with liquid assets.

We have seen increased adoption of professionally managed multi-manager options offered individually to participants. There is the potential to include private investments under this structure and we have seen this done successfully in a diversified real asset portfolio. Additionally, we would further posit that small allocations to private equity could add value to a multi-manager small cap

portfolio; similarly, a small allocation to private debt would diversify and add a return source to a diversified fixed income fund. This type of option would present a professionally managed solution that largely solves for the complexity, liquidity, and fee challenges mentioned earlier.

We view target date funds as providing the most viable implementation option with a limited exposure to private investments (e.g., less than 15-20%). Target date funds are professionally managed, which eliminates some of the complexity of private investments, and provide exposure to a diversified basket of assets, which could help with liquidity concerns. Because liquidity is provided at the fund level, target date funds can use their exposure to mostly liquid assets to balance the longer holding periods required by private investments without restricting participant withdrawals. Additionally, professional investment managers or plan investment committees are far better prepared to deal with complexity than individual participants.





6 A Case Study: From Idea to Implementation⁶

Mercer has helped several clients when it comes to implementing alternatives within their DC plans. Our key takeaway is that this can be a daunting task for a plan sponsor to take on without adequate support. The right partner and governance model can be essential components of a successful implementation. Below is an overview of a Mercer client who made the decision to implement private real estate as part of their custom target date fund solution:

DC Plan Background:

- DC plan with total assets near \$1.5 billion
- Plan is consistently growing due to mergers and acquisitions, resulting in more frequent demographic shifts in the participant base
- Mercer provides ERISA 3(38) investment delegation services (OCIO)

6. This case study is presented for information purposes only. The case study is an illustration of the type of investment services Mercer offers. Client results will vary and there can be no guarantee of similar results. Data as of 12/31/2023. Analysis as of 12/31/2023.

Timeline:

- Custom target-date fund program implemented in 2017 to better address shifting demographics and meet the needs of participants. Underlying investments utilized both active and passive management.
- In 2022, implemented most of the underlying assets through passive management, but added an actively managed private core real estate component (through open-end funds).
- Implementation occurred in early 2024.

Rationale:

- The fiduciary Committee (Committee) believes that many asset classes are efficient, and it is challenging to outperform respective benchmarks.
- Fund expenses that participants pay are also a key focus for the Committee, so a balance of passively and actively managed options is important.
- The Committee developed a philosophy to prioritize the use of active management where managers could best deliver alpha in the most efficient manner.

Challenges:

- As the OCIO, Mercer first conducted the required investment and operational due diligence to confirm the appropriateness of the product for this target date fund mandate. Specifically, Mercer's OCIO portfolio management and operations teams had to coordinate the implementation of the core real estate fund on the record keeper's platform.
- The process took over a year to complete, with notable involvement from legal, compliance, operations, the record keeper, and the investment manager to implement. Because of the 3(38) governance model, Mercer led the due diligence and coordination of implementation, alleviating time commitments for the plan sponsor.

7

A Framework for Considering Private Investments

As a plan sponsor, the decision of whether to add private investments to your DC plan can be challenging to say the least. We believe there are a variety of considerations a plan sponsor must weigh when it comes to these types of investments. From strategy to implementation and ongoing management, the opportunities and challenges that come with private investments in a defined contribution plan are unique.

Before proceeding with a framework to consider your strategy for implementation, the obvious key question is do you believe in the investment merits of adding private investments to your DC plan? If the answer is yes, but that you're not comfortable doing it yourself, then looking for an off-the-shelf product or engaging with an OCIO could be explored. To get to this point, a few key questions may include:

Do you believe in the investment merits of adding private investments?	Is the benefit material enough for you to pursue this as a fiduciary?	Are you equipped to evaluate, implement, and monitor private investments?	Potential action
Yes	Yes	Yes	Consider pursuing
Yes	Yes	No	Consider pursuing with OCIO implementation or off-the-shelf product, if concern is solely with implementation
No	No	No	Do not pursue

Below is a framework of important considerations and questions we believe plan fiduciaries should think about with regard to private investments for their DC plan.



Strategy

- **What purpose are private markets serving as part of the investment option(s)?**
Risk reduction, diversification, return enhancement. Establishing this purpose and re-evaluating periodically is critical.
- **What is the structure of the public markets and where do we believe there are opportunities?**
Do you feel you're getting sufficient exposure to real assets in public markets? Do you believe you're getting holistic equity and credit exposure through public equity and bonds? What types of investments would achieve this, if not, and how are you comfortable providing that to participants (e.g. target date fund)?
- **Within a target date context, where and how should these be implemented along the glidepath?**
Considering accumulation versus decumulation needs versus complexity. For example, using private equity at or around retirement vintages may not be appropriate.



Implementation

- **How large is your plan?** Do you foresee corporate/plan sponsor activity changing this? Determine if additional buying power would be impactful.
- **Do you have the in-house expertise to manage implementing alternative investments?** Familiarity with these types of assets may help (e.g. through a DB plan). Consider support of partners (e.g. consultant, record keeper) to help support and communicate to participants.
- **Do you have the support of a consultant who has the experience needed evaluating/implementing alternative investments?**
An OCIO or additional consultant with expertise could help.
- **How much liquidity are you comfortable giving up?** Will require detailed cash flow analysis for a precise answer, but an indication of low to medium to high is helpful. There are ways to obtain some liquidity within privates.



Ongoing Management

- **Do you have the in-house expertise or the right providers (consultant, recordkeeper/custodian) to:**
 - a. Monitor and evaluate the chosen alternative investments (including evaluating additional strategies as required e.g., for a replacement search)
 - b. Manage trading, rebalancing and liquidity needs at the participant and portfolio level.
- Depending upon the answers to these, there may be a benefit to delegating the ongoing management of your alternative exposure.
- **What type of ongoing education and communication is needed for participants?**

Summary

Private investments are a key component of the overall investment opportunity set, and to date, U.S. DC plans have under-allocated to private investments compared to other retirement plan structures, such as defined benefit plans. From a pure investment theory perspective, the case for adding private investments is well supported by research, as well as investor experience; however, the decision of whether to add private investments is nuanced and specific to each plan sponsor and their circumstances. The private investment landscape is changing as products and services are evolving to help address the complexity, liquidity, fee, and other concerns that have hindered DC plan adoption. As DC plans continue to grow and serve as the primary retirement vehicle for many Americans, DC plan fiduciaries should thoughtfully and intentionally consider the merits of adding private investments against the various challenges.

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