iCapital

Zero Is Not the Answer

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Wherever you stand in the growing debate about allocating to private market assets in defined contribution (DC) plans—or even how much that allocation should be—one point is indisputable: the goal of any retirement solution must be to maximize participants' retirement income potential. To achieve this goal, we believe the nearly 140 million DC plan participants in the U.S. need access to as much of the market as possible, including private markets (Exhibit 1).

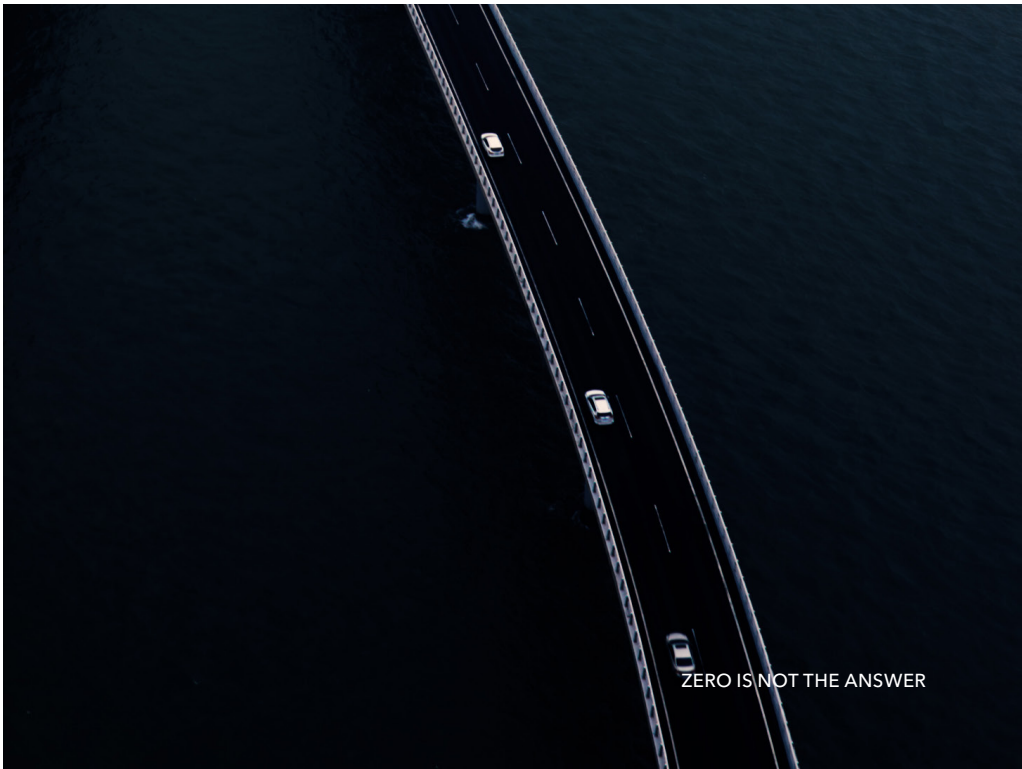
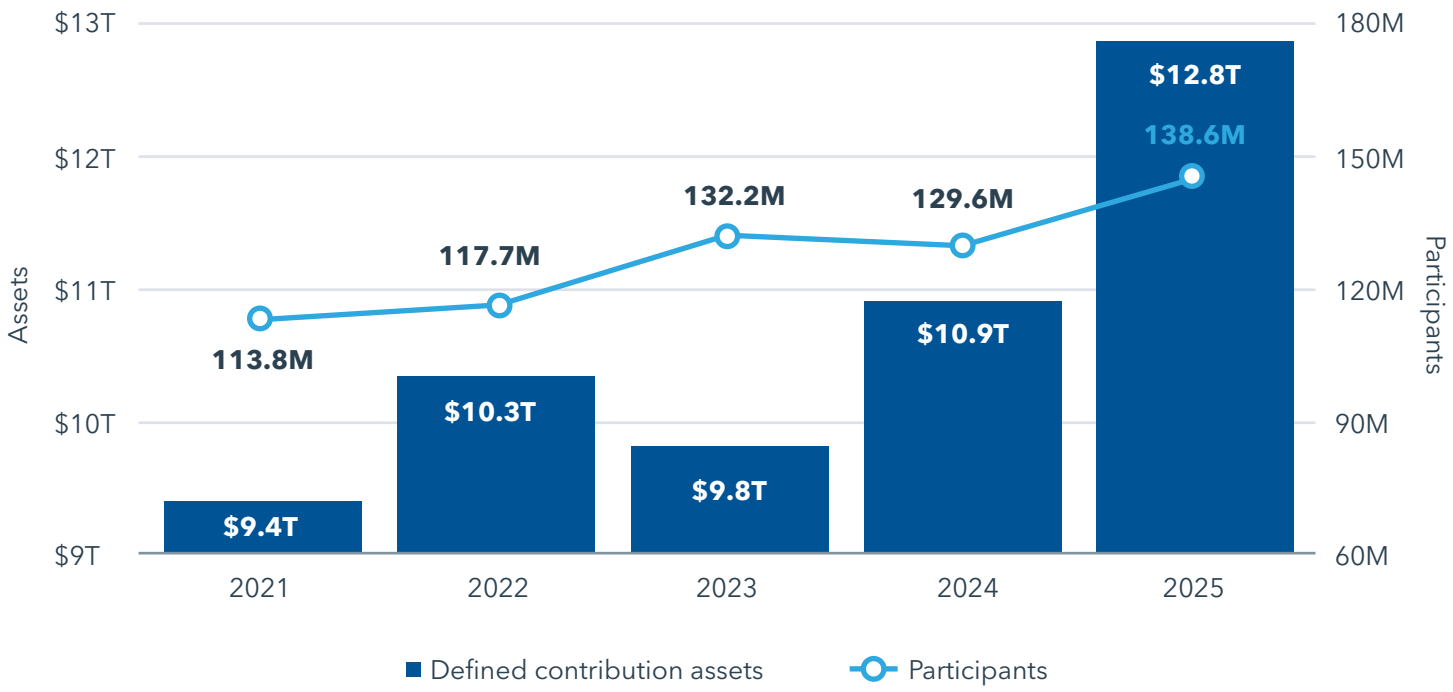


Exhibit 1: Total defined contribution plan assets and participants



Source: PLANSPONSOR 2025 Recordkeeping Survey. Data as of June 10, 2025. For illustrative purposes only.

Some argue that the risks or complexities of private markets justify a zero allocation. But zero is not the answer—not for all participants, not for all plans, and not for every category of private market investments. This perspective oversimplifies the realities of plan design evolution and the fiduciary's role in managing those risks. As DC plans evolve, solutions co-evolve, providing participants with broader and improved access to plan features that, ideally, create better retirement outcomes.

As we navigate this evolution, it's important to distinguish between two dimensions of access: individual participants having direct access to these options, and professional allocators leveraging private market tools on behalf of participants. This distinction matters because it shapes how solutions are structured, how fiduciary responsibilities are managed, and ultimately how retirement outcomes are delivered. Understanding both perspectives is critical to framing the opportunities and challenges ahead.

The conversation around expanding access to private market investments is gaining momentum, driven by regulatory signals and evolving plan sponsor interest. In response to the recent executive order (EO), we believe the landscape is going to change quickly, making it imperative for plan sponsors to start preparing plan participants now for the possibility and process of adding private market assets to their retirement portfolios (see our three takeaways from the EO).

This is not about chasing trends; it's about leveling the playing field. For decades, private markets have been a source of diversification and return potential for investors with scale and access. Now, as technology and product innovation reshape retirement solutions, the question is no longer whether DC participants should have access—it's how to deliver it responsibly, efficiently, and at scale. We can debate how participants access private market assets, what percentage of assets could ideally be allocated in relation to a total portfolio, and the vehicles/products participants can access. Whatever your concerns, we are certain the right answer on private market allocations in DC plans is not zero.

Still not convinced? We will briefly touch on three key reasons why we think DC plans should be considering private market asset allocations for plan participants:

- Markets are evolving, so plans must too.
- Many Americans' retirements already utilize private market assets.
- If other countries are doing it, why not the U.S.?

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Markets are evolving, plans must too

The investment landscape for retirement plans is undergoing rapid transformation, and defined contribution (DC) plans must evolve to keep pace. While the investment case for private markets has been debated extensively – indeed, reams of white papers address the topic, including iCapital's Nick Veronis and Aaron Schwartz's recent analysis of shrinking public markets, the death of the small cap premium, and pre-IPO returns[1] – the imperative now is to focus on how plan sponsors can thoughtfully incorporate private market assets to benefit plan participants.

Recent research from Georgetown University's Center for Retirement Initiatives indicates that inclusion of private market assets in "enhanced" target date funds (TDFs) could improve retirement income 7%–8% for a range of DC plan participants versus an allocation of global equity and aggregate bonds with a risk profile of an average TDF, and against a "typical" TDF that mimics the average TDF that includes modest exposures to real assets and public credit.[2]

Wherever you stand on these arguments, we believe it is the role of the fiduciary to consider the investment merits of individual asset categories (e.g., private real estate, private credit, private infrastructure) and weigh the upside and downside potential relative to other investment choices. For example, if there are concerns about the impact of prospective returns on participants or the timing of valuations, it is the fiduciary's responsibility to make decisions, such as underweighting an asset class relative to a long-term target or adjusting that allocation over time.

Rather than viewing complexity as a barrier, plan sponsors should recognize it as an inherent aspect of their duty to optimize participant outcomes. Plans must evolve and weigh the merits of available asset classes based on factors such as the demographics of their plan participants and how a particular asset class may or may not lead to better net risk-adjusted returns. The evidence and examples discussed above reinforce that zero allocation is, in fact, not the answer.

Our three takeaways from the EO

Signed in August 2025, EO 14330 "Democratizing Access to Alternative Assets for 401(K) Investors," lays out the purpose, policy, definitions, and near-term roadmap for adding alternative assets (aka private market assets) to DC plans. We want to focus on three things:

1. The roadmap points to this happening quickly. And so far, it is. In September, the Senate confirmed Daniel Aronowtiz as the head of the U.S. Department of Labor's (DOL) Employee Benefits Security Administration (EBSA). The appointment was followed by legislative activity, including the introduction of the Retirement Investment Choice Act (H.R.5748) in October 2025, signaling growing policy interest in expanding investment options in DC plans.

2. We believe EBSA will now begin parsing out potential regulatory hurdles and issuing regulatory and sub-regulatory guidance to plan sponsors, so they can in turn begin taking steps to add options to plans. It is worth noting that some perceived regulatory hurdles are not in fact regulatory hurdles. For example, we hear many arguments about how plans will need to meet daily liquidity requirements when many private market assets are illiquid. Technically, there is no regulatory requirement for daily liquidity in 401(k) plans—it is just customary. Moreover, these investments are intentionally designed to be long-term and illiquid, aligning with retirement objectives. We believe items such as this will be addressed in the coming months.

3. The EO's focus on net risk-adjusted returns – we believe a first for EOs – makes clear the stated policy of the federal government is that they are thinking about how these asset classes contribute to the overall portfolio results, not just the headline fee number. We believe the guidance going forward will build off this framing.

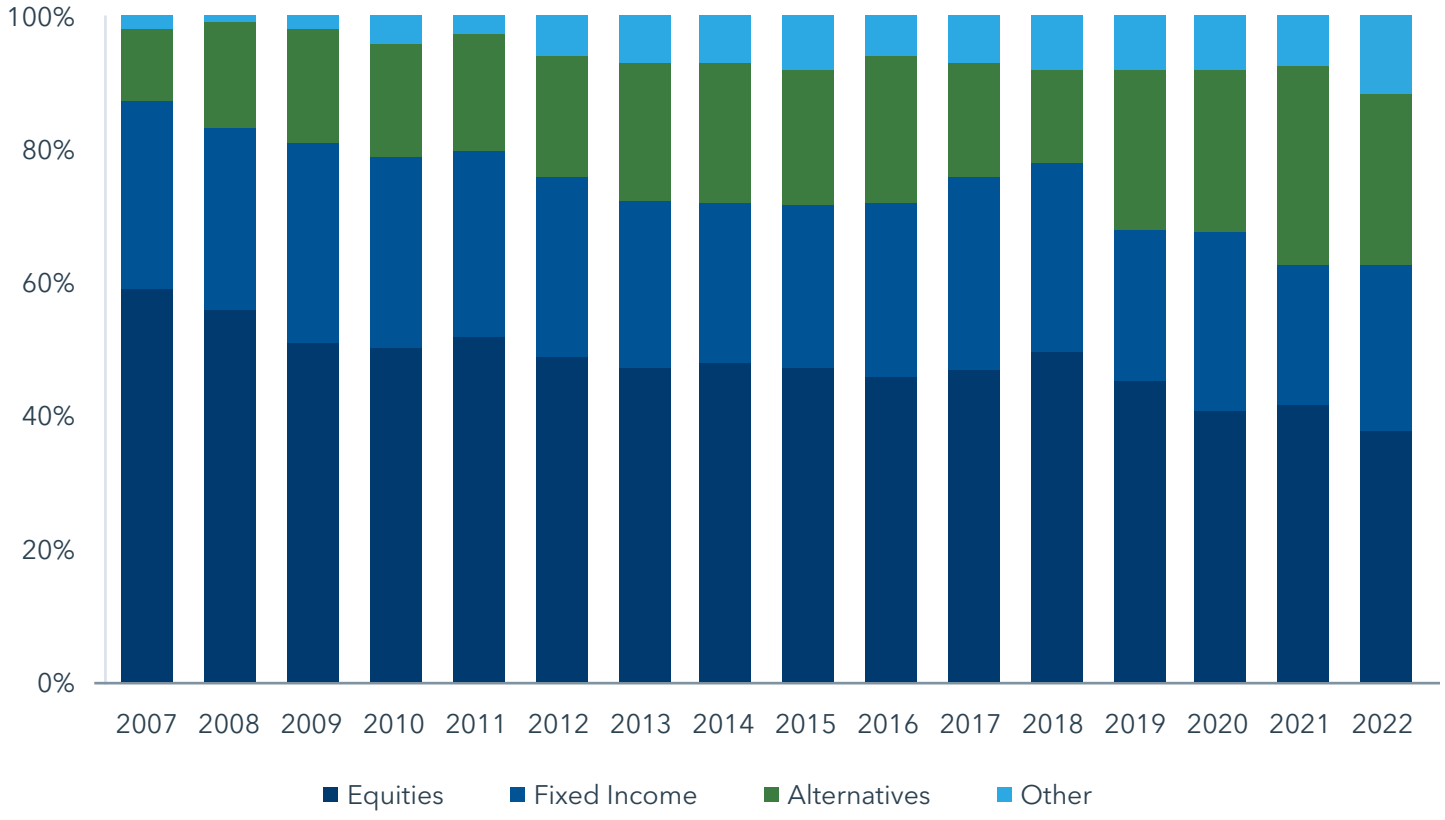
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Many Americans' retirements already utilize private market assets

One of the often-cited points in the debate against private market asset allocations in DC plans centers on a perceived negative impact these assets could likely have on participants. On the hyperbolic end of the debate, these allocations bankrupt the masses, trigger another Great Depression and subsequently destroy the futures of most (or all) working Americans. Interestingly, few of these scenarios point out that millions of U.S. retirement plan participants already have private market asset allocations in their retirement plans – including nearly 70 million participants, representing US$ 9.1 trillion in assets, in defined benefit (DB) plans.[3] Further, these plans have included private market assets for decades. In 1979, the DOL relaxed restrictions on the Employee Retirement Income Security Act (ERISA) of 1974, opening the door for private equity allocations in DB plans.[4] So again, despite the popular rhetoric in media, private market assets are not a new concept in U.S. retirement plan allocations. And, if anything, have become a more critical component of DB allocations over time, as seen in Exhibit 2.

Exhibit 2: Private market allocations in DB plans continue to grow

Alternative allocations across U.S. public plans have increased



Source: Hayden Gallary, CFA . "Better Alternative(s): Private Investments May Improve Outcomes for Defined Contribution Plan Participants," Cambridge Associates, Marc 11, 2024. Note: Original graph source Greenwich Associates LLC. For illustrative purposes only.

To address concerns that individual participants would be left to navigate the complexities of private market investments alone, it's important to clarify that this responsibility falls squarely on the fiduciary. The recent EO reinforces this, specifying the fiduciary "must carefully vet and consider all aspects of private offerings, including investment managers' capabilities, experiences, and effectiveness managing alternative asset investments." Individual participants are not tasked with due diligence on private market opportunities, designing diversified allocation targets, figuring out how to balance total portfolio liquidity, or ensuring fee structures are reasonable. This mirrors the approach taken in DB plans, where participants rely on plan sponsors and advisors to manage allocations and risk with the end goal of delivering more favorable results.

Equally important is the practical implementation. Private market asset allocations can be integrated into established 401(k) investment vehicles, such as qualified default investment alternatives (QDIAs), custom or off-the-shelf target date funds (TDFs), collective investment trust (CIT) TDFs, and managed accounts. This means plan sponsors have proven tools at their disposal to facilitate participant access to private market assets—without reinventing the wheel.

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Taken together, the experience of DB plans, the clear fiduciary framework, and the availability of familiar investment vehicles all point to a simple conclusion: just because private market assets have not yet been widely adopted in U.S. DC plans does not mean they should be excluded. The foundation for thoughtful integration is already in place.

Other countries are doing it, why not the U.S.?

Notice we made the distinction "U.S. DC plan" above. That was not a mistake. While some argue that private market assets may be suitable for DB plans but not for DC plans, international experience tells a different story: other countries have successfully implemented private market allocations in their DC systems. Australia has done so for decades, and the U.K. started more recently. Their approaches, in some ways, represent a range of possibilities.

Australia's superannuation (Super) system funds, totaling A$4.3T (US$280B),[5] began investing in private markets in the 1990s. Super allocations to private market assets range from 0%–38%, with the two largest funds investing an average of 22%.[6] Participants can choose a range of allocations, but those who do not make an active choice are automatically placed in a diversified, pre-mixed allocation. For example, AustralianSuper, the largest of the Supers, places investors in a balanced fund that includes a 26.6% allocation to private markets. However, private markets exposure is found across a range of pre-mixed allocations and risk profiles—even the most conservative plan includes 23.5% allocation (Exhibit 3).

On the opposite end of the spectrum, the U.K.'s foray into private market assets in DC plans is recent, via passage of the Mansion House II Accord in May 2025, and opts for a more gradual allocation to private market assets. Thus far, the 17 largest retirement plans are committed to increase private market investment to a default target allocation of 10% – five of which must be allocated domestically if the market conditions allow – in real estate, infrastructure, private equity, private credit, and venture credit by 2030. Whether the U.S. adopts Australia's approach, the U.K.'s methodology, or something in between, the international experience makes one thing clear: DC plans can successfully provide private market asset allocation options for participants. Whatever the model, zero is not the answer.

Exhibit 3: Private market allocations in AustralianSuper Balanced and Conservative Balanced Funds

Balanced

Invests in a wide range of assets with a focus on growth assets.

Designed to have medium- to long-term growth with possible short-term fluctuations.



Current asset allocation*
As at 30 June 2025

Asset Class (Range)	Allocation
Australian shares (10-45%)	**24.7%**
International shares (10-45%)	**32.1%**
Private equity (0-15%)	**5%**
Infrastructure (0-30%)	**14.4%**
Property (0-30%)	**3.8%**
Credit (0-20%)	**3.4%**
Fixed interest (0-25%)	**12.9%**
Cash (0-20%)	**3.6%**
Other assets (0-5%)	**0.2%**
Foreign currency exposure	**20.8%**

Conservative Balanced

Invests in a wide range of assets with a balanced mix of growth and defensive assets.

Designed to have medium-term growth with a balance between capital stability and capital growth. May also have some short-term fluctuations.



Current asset allocation*
As at 30 June 2025

Asset Class (Range)	Allocation
Australian shares (5-35%)	**18%**
International shares (5-35%)	**25.1%**
Private equity (0-10%)	**3%**
Infrastructure (0-25%)	**14.2%**
Property (0-25%)	**3.3%**
Credit (0-25%)	**4.7%**
Fixed interest (0-40%)	**22.7%**
Cash (0-30%)	**8.9%**
Other assets (0-5%)	**0.1%**

Source: AustralianSuper, Investment Guide: Investing in your future. As of August 1, 2025. Note: The balanced fund includes allocations to private equity (5%), private infrastructure (14.4%), private real estate (3.8%) and private credit (3.4%). For illustrative purposes only.

Conclusion

As the landscape of retirement planning continues to evolve, it is essential to examine practical solutions and challenge prevailing assumptions, especially regarding private market asset allocations in DC plans. Participants should have the option to add private market allocations to their investment line-up. It is the role of the fiduciary to ensure those assets fit into the total portfolio, adequately balance traditional risk and liquidity risk, and are properly rebalanced as a plan participant moves through the accumulation and distribution phases. It is also the role of the fiduciary to determine how to strategically add private market exposure based on the demographics of the plan's participants, as well as whether a certain asset class does or does not make sense for certain participants. In the end, one thing is clear: zero allocation is not the answer.

With this foundation in place, the next three papers in this series will address what we see as common misconceptions in the current debate around private market allocations in DC plans. The next paper in the series will focus on the liquidity debate, a topic at the heart of many discussions.

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ENDNOTES

1. See: Nick Veronis and Aaron Schwartz, “Private Equity Can Add Diversification To Your Public Index Holdings,” iCapital, July 16, 2025.
2. Source: Angela M. Antonelli, “Making the Case: The Effect of Private Market Assets on Retirement Income in Cases of Disrupted Savings.” Georgetown University Center for Retirement Initiatives in conjunction with WTW. 2025. Note: This study analyzed a range of DC plan participants (e.g., Lower-Income Workers; Family Caretakers; Job Hoppers; Unexpected Early Retirement; and an “Average” participant) that roughly model a typical plan.
3. Source: Ilana Bovine and Dan Doonan, “Pensionomics 2025: Measuring the Economic Impact of DB Pension Expenditures,” National Institute of Retirement Security, January 2025. Note: We have excluded the 2.7 million active and 2.7 million retired federal DB plan participants from figures as federal DB plans do not currently have private asset exposure.
4. Source: Paul A. Gompers and Josh Lerner. What Drives Venture Capital Fundraising? NBER Working Paper No. 6906. January 1999. JEL No. G24. Note: Via changes in the “prudent investor” (née prudent man), the ruling decided that small allocations to venture capital would not be seen as imprudent.
5. Source: Australian Prudential Regulation Authority (APRA). Quarterly Superannuation Performance Statistics for June 30, 2025. As of August 27, 2025.
6. Source: Australian Securities & Investment Commission (ASIC). Australia’s evolving capital markets: A discussion paper on the dynamics between public and private markets. February 2025.

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