

Industry Group DCALTA Issues Liquidity Framework for Inclusion of Alternative Assets in DC Plans

- Issuing its second in a series of topical Frameworks for the inclusion of alternative assets in Defined Contribution (DC) plans, DCALTA puts forward a Liquidity Framework that draws from the deep experience of the DCALTA membership to address real-world liquidity considerations of DC plans. In this second whitepaper, DCALTA integrates with their [first whitepaper](#), which set out a consensus Valuation Framework for daily valuation of private assets in DC plans.
- [This paper](#) explains how fiduciaries can maintain a plan-facing ‘daily’ liquid experience when a portion of an investment option available to participants has underlying assets that are illiquid.
- DCALTA has adopted specific positions on liquidity related considerations that are placed throughout the Liquidity Framework discussion to explain that:
 - With due consideration of liquidity and other inefficiencies as may be imposed by risk appetite, alternative investments can contribute to the performance of DC plans.
 - A range of options exist for DC plans to include alternative investments in a plan lineup that can align with risk appetite.
- The DCALTA Liquidity Framework steps through variables in a logical, telescoping sequence to bring clarity to the process and a qualitative appreciation of key decision points.

Port Orange, Florida, November 1st, 2023. Consistent with its mission of enhancing retirement outcomes, industry group DCALTA (the Defined Contribution Alternatives Association) has published a practical framework to provide plan fiduciaries clarity on liquidity considerations when including illiquid assets in defined contribution investment portfolios. The [Liquidity Framework for Inclusion of Alternative Assets in DC Plans](#) considers the variables that shape plan liquidity in a logical, telescoping sequence to help plan fiduciaries take a tailored, risk-centric approach to implementing alts.

“Including private assets and other alternative assets in 401(k) plans is happening in the United States,” said Jonathan Epstein, DCALTA Founder and President. “The full breadth of DCALTA members have looked deeply enough at the operational issues to form a meaningful industry consensus. This paper is intended to be a practical roadmap for plan fiduciaries, and their service providers, so they may move toward implementation with greater confidence.”

“Liquidity” is among the foremost operational considerations of American DC retirement plans when contemplating the inclusion of alternative assets (alts) in plan lineups. While the motivation behind their inclusion is to improve participant outcomes, the characteristically illiquid nature of the asset class can be seemingly at odds with participant expectations of flexible, fast, daily access to their retirement savings. Fortunately, there are a range of product and management options – for even the smallest DC plans – to alleviate liquidity management challenges. In pursuit of better retirement outcomes for participants, plan sponsors may now contemplate an allocation to alternative assets within their defined contribution plans.

“DC plan participants have a long investment time horizon and exhibit lengthy holding periods. They rarely utilize ‘daily’ access to their investments, a feature that has led plans to limit investment offerings to the most liquid markets. The DCALTA Liquidity Framework provides guidance for plans to access the potential diversification, return enhancement, and risk management benefits of illiquid investments – including alternatives – within a ‘daily’ environment,” said Clint Cary. “Combined DCALTA guidance on valuation and liquidity, US DC plans now have a clearer path to deploy their liquidity risk appetite utilizing allocations to a broad spectrum of illiquid investments available in the market.”

“U.S. defined benefit pension plans have gained from their exposure to alternative assets for a long time,” said Avi Turetsky, Partner and Head of the Quantitative Research Group at Ares Management. “In contrast, defined contribution plans have largely missed out on the return and diversification benefits of alternatives, and liquidity is one of the reasons why. We hope that this framework helps to make alternatives more accessible to defined contribution plans and their participants, thereby improving outcomes for tomorrow’s retirees.”

About DCALTA

Enhancing Retirement Outcomes - a collective voice on alternative investments in defined contribution plans.

DCALTA seeks to enhance the retirement security of defined contribution (DC) plan participants by the inclusion of alternative assets:

- As a modest allocation within a long term focused, multi-asset fund option on a DC plan menu
- Through a well-diversified portfolio of alternative assets
- Professionally managed within a prudent structure designed for the needs of DC plan participants.

DCALTA's mission includes education, research and advocacy on the benefits of alternative investments options within a defined contribution framework. To learn more about DCALTA, please visit dcalta.org.

Info Contact:

Jonathan Epstein at je1@dcalta.org

Clint Cary at clint@carysolves.com