

Newsletter

January 2022

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DCALTA Committee highlights.

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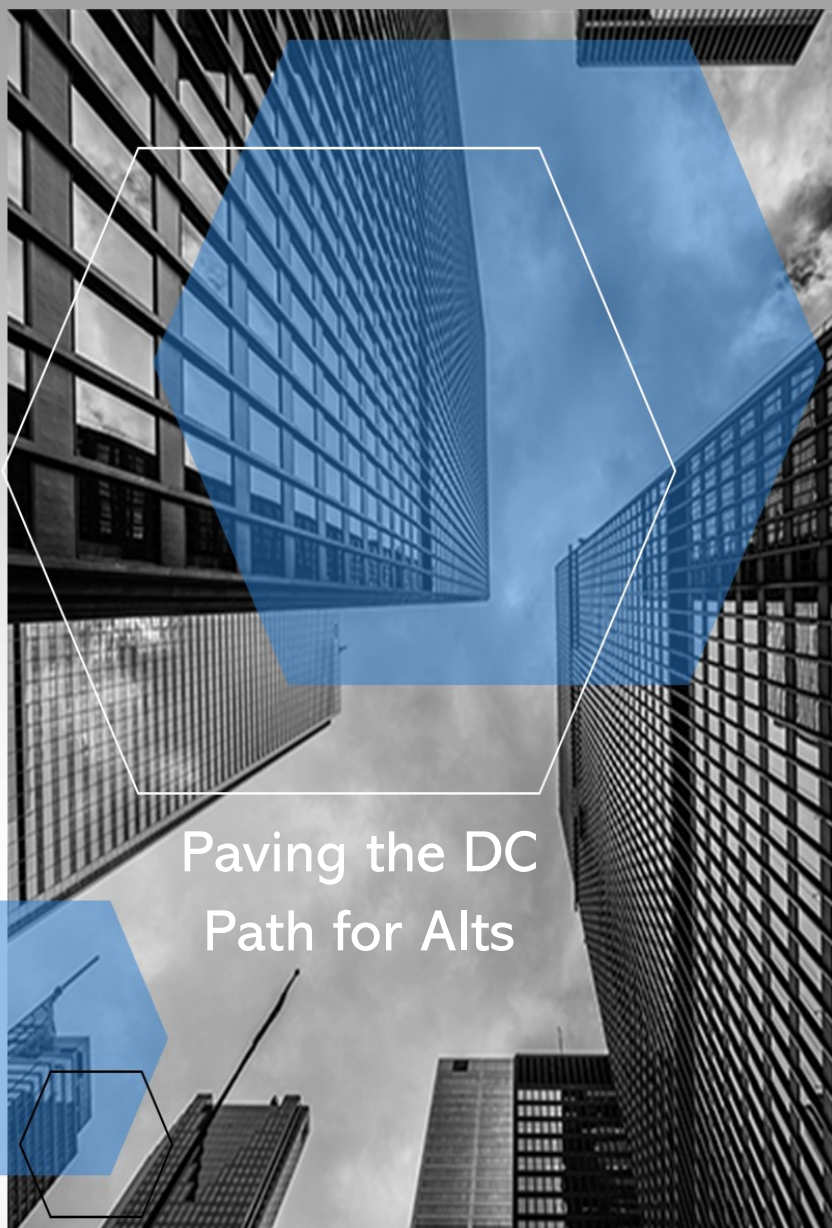
Stay tuned for DCALTA project initiatives for 2022, accessing the DCALTA website and our newest member firms.

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Summary of the DCALTA General Session on Nov. 5th.

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DCALTA Research and a Q & A with President, Jonathan Epstein on the upcoming year for DCALTA.



Paving the DC Path for Alts

2021 - Year-end Update

SNAPSHOT

DCALTA members, thank you for your continued support and helping grow our powerful and collective voice on Alts in DC Plans. With great anticipation, we were able to hold an in-person DCALTA General Session meeting in San Francisco on Nov. 5th, 2021. Our host, [BlackRock](#), worked quickly to secure a venue and diligently to ensure our meeting was a real success. On behalf of DCALTA and our Board of Directors, thanks to everyone at [BlackRock](#) for their help and continued support of our mission.

To summarize the important topics discussed at the last General Session meeting, we have included the agenda, presenters, a summary of the key themes and a Q & A with DCALTA President, [Jonathan Epstein](#).





Next Meeting

DCALTA Networking Reception – TBD

DCALTA General Session Meeting – TBD

We are still in the process of selecting a date and site for our next DCALTA General Session Meeting and Welcome Reception. When selecting both dates and venues, we try to accommodate other industry organizations and their meeting dates to avoid travel and attendance conflicts. Stay tuned for our next meeting date!

We will be holding three in-person events, as well as webinars throughout the year. If interested in suggesting topics for the webinars and/or meetings, please email [Michelle Rappa](mailto:Michelle.Rappa@nb.com) at Michelle.Rappa@nb.com.

Committee Highlights

Alts Implementation & Operations Committee

Meets via GoTo Meeting on the first Thursday of each month at 11:00am ET

Committee Chair - [Hayden Gallary \(Cambridge Associates\)](#)

Committee Co-Chair - [Stuart Odell](#)

- Educates and informs on the operational considerations of incorporating alternatives in DC plans on a more frequently valued basis.
- Outlines the impact of the movement of cash flows and valuation at both the fund and participant level.
- Collects information on the vehicles and structures being implemented currently/under development.
- Discusses ERISA required reporting, operational compliance activities, and participant level communications requirements



The Alts I/O Committee has been working on the release of six white papers on the following topics.

- ⇒ Valuation (*released 2/23/2021*)
 - Q&A - <https://bit.ly/2ZK1Nia>
 - Exec Summary – <https://bit.ly/3dA1ezx>
 - Full Paper - <https://bit.ly/3qHZPuW>
- ⇒ Liquidity (*in-progress*)
- ⇒ Fees and Expenses (*upcoming in 2022*)
- ⇒ Performance and risk measurement, attribution, and benchmarking
- ⇒ Legal and regulatory issues
- ⇒ Disclosures and communications

During the year, committee members heard presentations from [RealBlocks](#), [iownit](#), [Nasdaq](#), [Benefit Trust](#) and [FEV Analytics](#).

Research Committee

Meets as projects are coordinated via other committees

Committee Chair - [Hayden Gallary \(Cambridge Associates\)](#)

- Produces research on alternative investments and their impact on defined contribution retirement plans
- Seeks out potential partner firms, associations and institutes to collaborate on groundbreaking research
- Conducts research on feasibility of utilizing quality data-bases to support our research and other educational materials for the benefit of institutional investors, plan sponsors/participants and DC stakeholders

Public Policy

Meets on an as needed basis.

Committee Chair – [Bob Long \(Conversus, a StepStone company\)](#)

- Educates regulators and legislators on the benefits of including alternative investments in defined contribution plans
- Communicates DCALTA's mission through in-person meetings and response letters to facilitate the inclusion of alternative investments in multi-asset DC portfolios
- Seeks alliances with other like-minded organizations to create a stronger voice

Alts Technology & Innovation Subcommittee

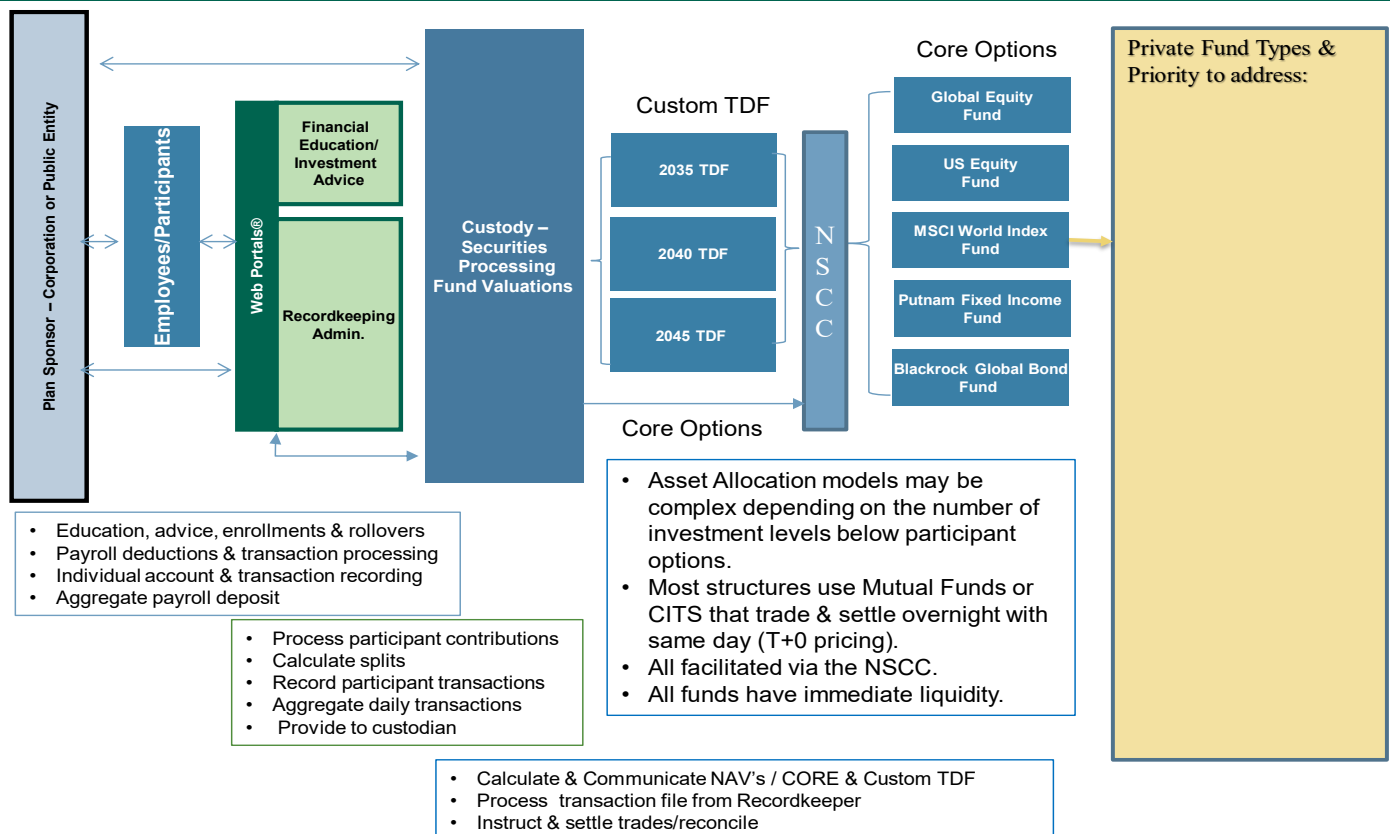
Meets via GoTo Meeting on the last Thursday of each month at 11:00am ET

Committee Chairs - [Katey Bogue \(Nasdaq\)](#) & [Chris Tinsley \(Nasdaq\)](#)

Committee Co-Chair - [Serge Boccassini \(Northern Trust\)](#)

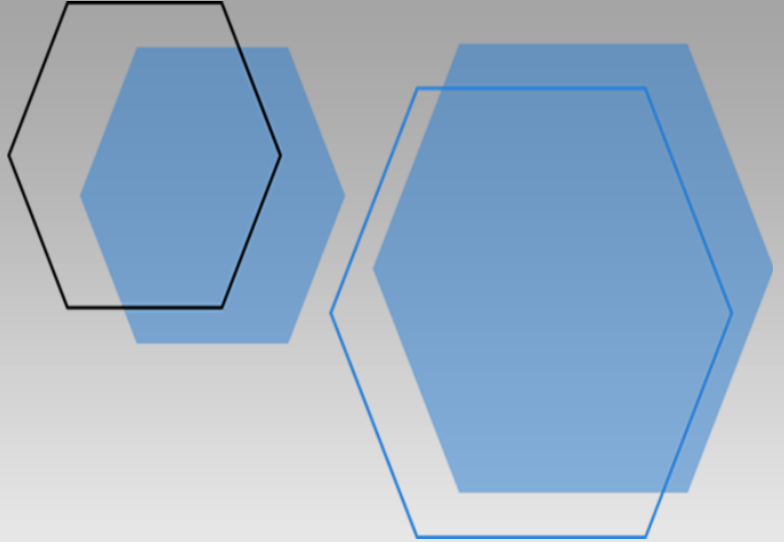
The collective voice of this committee will drive a technology based and industry focused discussion, the goal of which is to apply appropriately designed modern technology to help eliminate the timing, liquidity and valuation process issues experienced in the alternative investment marketplace. Our initial meetings focused on the process, roles and provider responsibilities involved when incorporating different types of funds into a defined contribution plan. We will be looking at what sections of the workflow can be solved by technology to facilitate a more effective and timely process.

The Defined Contribution Moving Parts and Services



DCALTA 2022 Projects

- DCALTA is interested in partnering with other firms and/or industry organizations to analyze public sector plans that have unitized or are in the process of unitizing their defined benefit plans for the investment benefit of their defined contribution plan participants. We seek data on volume, asset allocation and other plan-level data.
- DCALTA will soon be releasing a series of hedge fund benchmarks in 2022 for plan sponsors and other DC stakeholders.
- DCALTA will also begin the process of creating private equity and venture capital benchmarks in 2022.



Welcome to all our new DCALTA Members in 2021

- ⇒ [Ares](#)
- ⇒ [Blackstone](#)
- ⇒ [Fairway Capital Management](#)
- ⇒ [JP Morgan](#)
- ⇒ [Lonsdale Investment Technology](#)
- ⇒ [Montgomery County Employees Retirement Plan](#)
- ⇒ [Nasdaq](#)
- ⇒ [RealBlocks](#)
- ⇒ [Rocket Dollar](#)
- ⇒ [Ruffer](#)

DCALTA Members-only Site

Don't forget that DCALTA Members have access to past presentations and webinars via our members-only website section. Please use the following instructions to gain insight.

Visit www.dcalta.org

- ⇒ Click on **Member Log-in** (top right)
- ⇒ Click on **Sign Up** (next to *New to this site?*)
- ⇒ Enter your **Email** and **Custom Password**
- ⇒ Upon approval, click on **Log-in** (next to *Already a member?*)
- ⇒ Click on the **drop-down arrow** next to your Member Name/ID (top right)
- ⇒ Click on **My Account**
- ⇒ Click on **DCALTA Meeting Materials** (bottom left)

DCALTA General Session Meeting Agenda

Paving the DC Path for Alternative Investments

On November 5th, 2021, DCALTA members and invited guests convened in San Francisco for the organization's sixth year-end meeting. Speakers and attendees from many different financial disciplines considered the growing interest in including private market assets into U.S. defined contribution savings plans, the rapidly evolving legislative and policy agenda, emerging technologies and dynamic industry trends.

This high-level summary of essential themes seeks to stimulate further inquiry and conversation. For more detail on the proceedings, DCALTA members may access the PDFs of the presentations via the DCALTA Members-only site (see page 4 for instructions). We will be posting them in January after the website concludes its revision construction.

Agenda:

Growing Interest in Alternative Investments – Views from BlackRock

[Matthew Rauseo](#) - BlackRock

Accessing Alts in Non-qualified Plans and IRAs

[Kirk Penland](#) - Voya

[Henry Yoshida](#) – Rocket Dollar

DB Plan Unitization for use in DC Plans – Practitioners Panel

[Charles Millard](#) – Intro to session former PBGC Director

[Alain Michnick](#) – Moderator - FTSE Russell

[Chris Nikolic](#) – Head of Glide Path Strategies Alliance Bernstein

[Jani Venter](#) – Executive Director JP Morgan

[Linda Herman](#) – Executive Director Montgomery Cty. Employee Retirement Plans

[Kevin Killeavy](#) – Co-Chief Investment Officer Montgomery Cty. Employee Retirement Plans

Tracy Guerin – Executive Director Washington Dept. of Retirement Systems

DB Plan Unitization for use in DC Plans – Legal and Mechanics

[David Levine](#) & [Kevin Walsh](#) – Groom Law Group

[Thomas Lauer](#) – Northern Trust

[Sheridan Porter](#) – FEV Analytics

ESG in DC plans – Private Market Implications

[Alain Michnick](#) – Moderator - FTSE Russell

[Susan McAndrews](#) – Pantheon

[Matt Garzone](#) – Natixis

[Meenu Natarajan](#) - Mercer

Legal and Regulatory Update

[David Levine](#) – Groom Law Group

[Kevin Walsh](#) – Groom Law Group

DCALTA Hedge Fund Benchmarks

[Jon Caplis](#) – Pivotal Path

DCALTA Research – Liquidity Dynamics of Alternative Assets in DC Plans

[Sheridan Porter](#) – FEV Analytics

[Stuart Odell](#) – DCALTA Member

DCALTA General Session Meeting Highlights

Paving the DC Path for Alternative Investments

Accessing Alts in Non-qualified Plans and IRAs

Many industry observers don't typically consider non-qualified plans as vehicles for the inclusion of alternative investments. But non-qualified plans – plans not regulated by ERISA – can allow for different levels of investors to get involved and provide highly compensated employees access to different types of asset classes.

A non-qualified plan can serve as the qualified purchaser which has the effect of helping different kinds of alternatives to receive investment by employees covered by the non-qualified plan. In this way, non-qualified plans can serve as a long-term performance vehicle and/or as a supplemental generator of enhanced retirement income.

Non-qualified plans don't live in the ERISA regulatory framework, so they can be more discretionary in terms of their investment allocations than qualified retirement plans. This allows for more nuances of plan design and funding vehicles. A few large record-keepers have already begun experimenting with this investment format for mid-size and large employers. These non-qualified plans offer companies a unique structure for attracting and retaining top talent.

DB Plan Unitization for use in DC Plans – Practitioners Panel

In recent years, we've seen public retirement plans – at the State and municipal levels – unitizing their defined benefit plans, (either at the plan level or at the asset class level) as an investment option for their defined contribution plan participants. State pension plans are staffed by sophisticated investment professionals; these internal teams are well acquainted with multiple investment strategies. They can benefit their DC participants either by creating DC plans that mirror their DB plan, or by using unitization to facilitate different allocations. Unitized investments can also be used as underlying asset classes for the construction of target date funds.

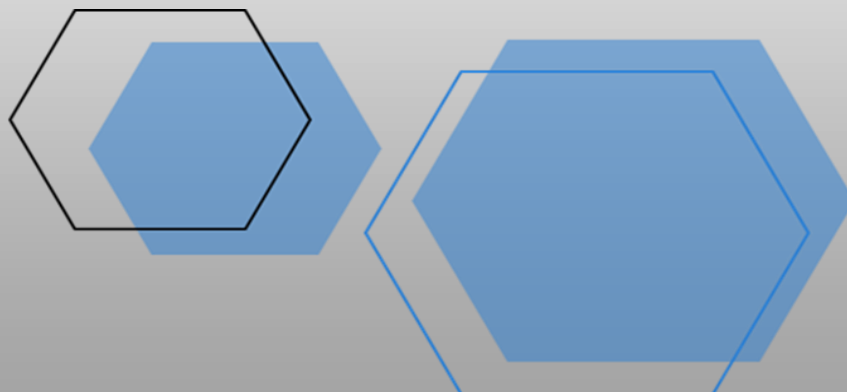
Full DB plan unitization is primarily used by public plans because many private corporate DB plans may be deploying liability-driven investment (LDI) strategies that may not correlate with the allocation requirements of an average investor. We believe corporate DC plans may follow the path to unitize at the holdings level to accommodate younger DC participants and to facilitate customized TDFs to take advantage of the economies of scale and internal investment expertise. .

DB Plan Unitization for use in DC Plans – Legal, Mechanics and Investment Utilization

There are many nuances in the management and funding of pension plans undertaking unitization. Some notable sponsors include Montgomery County, Maryland and the State of Washington, which DCALTA members were able to glean valuable information on. Asset allocations, investments and due diligence efforts were all profiled.

ESG in DC plans – Private Market Implications

There is a rising tide of interest and engagement of ESG and diversity/equity/inclusion (DEI) strategies among pension plans and defined contribution plan sponsors, regulators and others around the world. The financial services industry has responded with robust product creation aimed at the place where ESG, DC savings plans and private market assets converge. Private markets are an excellent place to effectuate ESG investment strategies for DC plans at a high level. A traditional partnership structure for private equity, which might invest in 20 to 30 different portfolio companies, would be an example. These are conversations that may be taken at the time of investment at the portfolio company level.



DCALTA General Session Meeting Agenda Highlights

Paving the DC Path for Alternative Investments

Legal and Regulatory Update *(updated to reflect the most recent DOL action)*

Here is an update you on the recent [Department of Labor Supplemental Statement on Private Equity in Defined Contribution Plans](#) (the “Supplement”) and our perspectives as the collective voice of the DC plan industry.

First, the Supplement does not revoke the June 2020 Information Letter Regarding Private Equity (the “Letter”). Rather, the Supplement emphasizes the importance of plan fiduciaries understanding their underlying investments and when needed, utilizing third party expertise in the exercise of their duties. All of this aligns with the fiduciary framework we have supported from our inception in 2015. Moreover, the concerns raised in the letter dovetail with our position described below, along with our focus on the critical topics of education, valuation, liquidity, fees/efficiency and transparency, along with our past, current and future position papers to deliver practical solutions and frameworks to DC practitioners.

Second, in the context of the Supplement, it is important to reinforce DCALTA’s position. We support enhancing the retirement security of DC plan participants by the inclusion of alternative assets in a format that meets all the following criteria:

- ⇒ As a modest allocation within a long-term focused, multi-asset fund option (such as a target date fund) on a DC plan menu
- ⇒ Through a well-diversified portfolio that includes alternative assets that are
- ⇒ Professionally managed
- ⇒ Within a prudent structure designed for the needs of DC plan savers

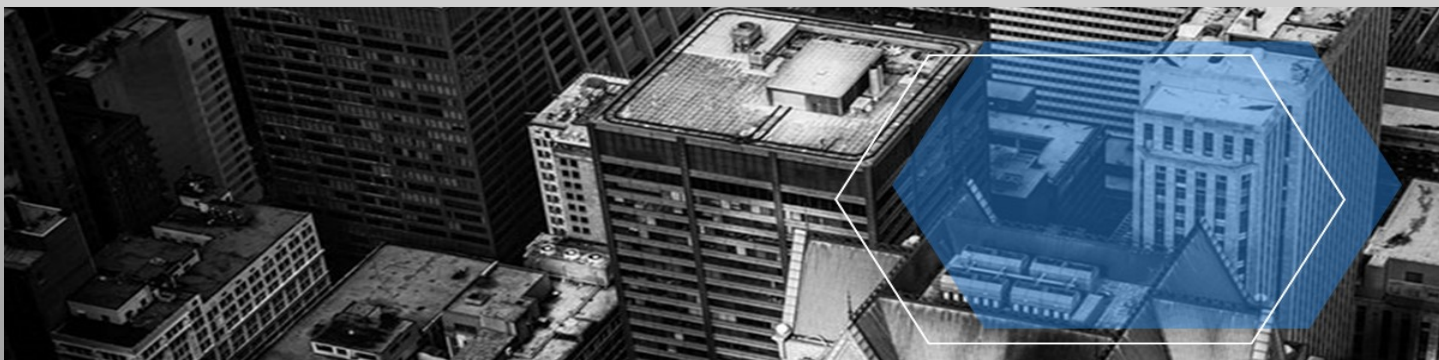
Third, in effect, the implementation of alternatives in DC plans that we support meets or avoids many of the concerns expressed in the initial [DOL information letter](#) from June 2020. We have never suggested that individual plan participants should be selecting specific or stand-alone alternative investments, but rather they access alternatives within a professionally managed long-term multi-asset solution.

Finally, while the Supplement uses some inartful language and makes some unhelpful distinctions between “small” and “large” plans, apparently premised on certain assumptions on sophistication and capabilities, it does not change the substance of the Letter – that private equity, and by implication other alternative assets, may be a prudent investment for DC plans.

DCALTA Hedge Fund Benchmarks

Ever since the formation of DCALTA, the organization has been developing a series of alternative asset benchmarks that could be used by the sponsors of defined contribution workplace savings plans, their consultants and other fiduciaries. These benchmarks would seek to gauge the opportunity set presented by different types of alternative investments included in multi-asset type portfolios.

In partnership with hedge fund consultant and data collector [Pivotal Path](#), DCALTA has released eight hedge fund benchmark strategies, together with a composite benchmark that combines all eight. Over the next two-to-five years, it is anticipated that hedge funds will become more prevalent in long-term portfolios, including workplace defined contribution savings plans. Following this effort, DCALTA will continue to research and establish industry agreeable benchmarks for private equity and venture capital investments serving as allocations within multi-asset DC vehicles or structures.



DCALTA General Session Meeting Agenda Highlights

Paving the DC Path for Alternative Investments

DCALTA Research – Liquidity Dynamics of Alternative Assets in DC Plans

For the past year, DCALTA has been developing a new white paper on the liquidity dynamics of alternative assets in DC plans, drafted by experts and content providers representing different professional disciplines. Publication is anticipated in the first quarter of 2022. The paper will examine liquidity dynamics and different types of market stresses that would affect illiquid investments in long term portfolios. Of particular focus are actions that could help alleviate some of the liquidity issues raised by a multi asset type framework, particularly those embedded within a defined contribution investment structure.

The new white paper will be a companion piece to an earlier DCALTA paper, the “Daily Valuation of Alternative Assets in DC Plans,” which offers a procedural, quality management and governance framework. That earlier paper states that daily valuation and pricing can be achieved using existing approaches and in accordance with accounting and legal requirements. It also states that technical issues such as reporting lag, valuation accuracy and dilutive effects can be handled systematically and fairly and that existing audit pathways remain intact. Valuation remains tethered to the net asset value (NAV) reported by the direct manager.

There are different types of liquidity being built into investment being marketed and used today. A “plug and play” approach can be used to include these strategies into target date funds (TDF), whether managed as a pool, a whole pool, or as a combination of different types of funds.

A third DCALTA paper will focus on fees and expenses. A fourth will address performance and benchmarking attribution, communications and disclosures to both sponsors and participants, and associated legal and regulatory issues.

There is no “right or wrong way” to do this. DCALTA is open and supportive of all efforts and believe that plan sponsors should be educated on all of these approaches



Paving the DC Path for Alternative Investments

Q & A with [Jonathan Epstein](#), DCALTA President and [John Mitchem](#) (JM3 Projects)

Q: Where is DCALTA today, six years after its founding?

A: Today we have 45 members that span the entire U.S. retirement ecosystem, they represent plan sponsors, indices firms, exchanges, FinTech, asset servicers and managers of different asset classes. Increasingly, we are drawing interest from around the globe, including the UK where there is a tradition of private market investment in pension funds and a renewed focus on “value for money”. I remember sitting around a board room table with 7 others back in 2015. We have come a long way but still have a ton of exciting work to accomplish over the next decade.

Q: What were the primary themes you saw discussed in this past DCALTA General Session?

A: Number one, we are close to launching our hedge fund benchmarks, where they will be viewable on the new website upon completion in the new year. Though we’re in the early stages of large allocations to hedge funds by DC plans, we’re anticipating robust growth over the next 3-5 years due to expected market assumptions. Another interesting theme is DB unitization for DC participants. With DB unitization, a plan sponsor uses their defined benefit plan to create a fund for access by their defined contribution participants. This allows for economies of scale, the ability to use internal investment staff expertise and can provide diversification benefits across a wide spectrum of asset classes not commonly available to dc participants.

ESG in private markets is also getting a lot of focus. Private equity can play a major role in furthering ESG investment through their ability to educate and influence portfolio companies on ESG strategies. Finally, we are always monitoring regulatory changes. Last June’s Department of Labor draft ruling on ESG in DC plans, we believe, will stimulate the development of new products.

Technology is always a crucial topic for operations and instrumental in valuation techniques and effectiveness. The industry is working hard to develop more uniformity around the daily pricing of illiquid assets. DCALTA published a paper on investment valuation in February 2021. And we’re also about 80% done with a new paper on liquidity, encompassing common themes on how we can approach illiquid assets within multi-asset long-term investments for DC plans.

Q: What is DCALTA focusing on in 2022?

A: The infrastructure programs that have been authorized by Congress are certainly going to be an area that will benefit our membership and firms that have existing or plan on creating infrastructure funds. Private equity, private credit and real estate will also be looked at more heavily by sponsors to provide enhanced performance and/or risk mitigation. Simply, diversifying across multiple alternatives can benefit plan participants and will become more commonplace in target date funds. Mitigating risk through hedge funds is another area that consultants and sponsors will analyze for portfolio optimization. That said, we are in discussions with another organization on a project that will model hedge fund returns (net of fees), with a view on minimizing the retirement income gap that pervades the U.S. retirement system.

About DCALTA:

DCALTA’s mission is to **enhance and secure participant outcomes** through education, research, and advocacy on the benefits of including private equity and other alternative investments within a defined contribution framework. Our members represent every aspect of the U.S. retirement investment ecosystem, and we seek to be the industry’s collective voice on both policy and operational topics.

DCALTA seeks to enhance the retirement security of 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 MEMBERS

Adams Street Partners
Ares
Alliance Bernstein
Benefit Trust
Benetic
BlackRock
Blackstone
Bow River Capital
Cambridge Associates
CNL Financial Group
Conversus
Eli Lilly
Fairway Capital Management
FEV Analytics
Franklin Templeton
FTSE Russell
GCM Grosvenor
Groom Law Group
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Mars Corporation
Nasdaq
Natixis
Neuberger Berman
Nokia
Northern Trust
Nuveen
Pantheon
PGIM
RealBlocks
Rocket Dollar
Ruffer
Spark Institute
StepStone Group
Textron
University of California Regents
VOYA Financial
XTAL Strategies

GROW OUR COLLECTIVE VOICE

- ⇒ We want to meet prospective firms who share our mission. For an introduction, please contact Jonathan Epstein at je1@dcalta.org
- ⇒ If you are involved with other organizations that would help with our mission of expanding the use of different types of alternative investments in DC plans, we kindly ask you introduce us.
- ⇒ If there are platforms that help facilitate the expansion of alternative investments, please introduce us.

For more information about any of the above committees, please email admin@dcalta.org. Thanks to all our members for your continued support.

