



PRINCIPLES FOR DC STAKEHOLDERS ON THE CONSIDERATION AND USE OF PRIVATE MARKET INVESTMENTS

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DCALTA

10

YEARS

DEFINED CONTRIBUTION
ALTERNATIVES ASSOCIATION

On behalf of the DCALTA Board of Directors, we express our gratitude to the following individuals for their incredible support and commitment to bringing this project to fruition. Collectively, we can accomplish great things and the Principles are the result of dedication and industry collaboration to advance the responsible utilization of alternative investments within a DC framework. Thanks to our partners and stakeholders who provided valuable insights and resources throughout this journey. Our intent is for these Principles to help guide plan fiduciaries in securing and enhancing participant retirement outcomes.

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Introduction

Public opinion polls consistently show that a large majority of Americans believe that retirement is in crisis and Americans will have trouble achieving financial security. For fiduciaries striving to enhance retirement outcomes for defined contribution participants, the consideration of private market investments has emerged as a crucial component of a diversified portfolio. As part of our ongoing mission to educate DC stakeholders, the DCALTA Principles provide a structured and logical framework to navigate the complexities associated with integrating alternative assets into DC participant investment options (PIOs). By emphasizing prudent investment processes, value for money, and operational effectiveness, these principles aim to foster informed decision-making by DC stakeholders at all levels.

In an environment where traditional public assets may no longer suffice to meet retirement liabilities, the inclusion of private market investments offers the potential for improved risk-adjusted net of fee returns. Understanding the unique characteristics of these investments is essential for fiduciaries tasked with maximizing value for participants while managing operational and liquidity risks. Furthermore, effective communication and education can be beneficial to ensure that participants are well-informed about the nature and implications of their investment choices.

This introduction sets the stage for exploring the key principles outlined by DCALTA, which serve as a guide for fiduciaries, financial professionals, and stakeholders committed to optimizing retirement outcomes through a balanced and thoughtful approach to private market investments. Plan fiduciaries may consider these principles when evaluating and implementing private market investment strategies within PIOs. Plan fiduciaries who construct custom PIOs may decide to utilize some or all of these principles, while plan fiduciaries who are evaluating off-the-shelf or pre-packaged PIOs constructed by an investment manager may incorporate some or all of these principles into their evaluation criteria.

DCALTA member organizations spanning the retirement industry worked collaboratively to develop these consensus-driven principles. This is a living document, and the DCALTA principles will be reviewed and revised annually to reflect regulatory and legislative changes, as well as the impact of product innovation in this space.

PRINCIPLES TYPE

01

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PROCESS

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04

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05

PARTICIPANT
COMMUNICATION

PRINCIPLES TYPE

01 Fiduciary Process

DCALTA believes that in discharging its fiduciary responsibilities to provide participants with effective retirement outcomes, fiduciaries might consider not only public assets but also private assets.

- Private market solutions should be treated consistently with other asset classes commonly used in retirement plans. The Department of Labor has made it clear that fiduciary standards apply to all asset classes, no more or no less because of the type of asset classes.
- Every asset class has its own unique characteristics that may be blended in a variety of combinations to provide beneficial diversification. Private market investments, like other asset classes, have distinct characteristics that can be identified and evaluated via investment analytics.
- ERISA permits many frameworks for the assignment, assumption and delegation of fiduciary duties. Because of this flexibility, private market solutions can be managed and overseen by plan fiduciaries, intermediaries, or third parties with beneficial skill sets identified by plan fiduciaries.
- While there are many types of investment policies, adaptable and flexible investment policies can facilitate the use of a wide range of beneficial investments, including private market solutions.
- Established due diligence and disclosure processes provide a robust framework for disclosing investments that use public, private, and other innovative investment solutions.

Value for Money 02

Decisions regarding value for money, when considering alternatives in the DC space, may be addressed by the following.

- Recognizing that retirement plan investments are earmarked for long-term benefits to plan participants and beneficiaries, is the investment expected to enhance net returns taking into account the underlying risk of the investment and its diversification benefits.
- In evaluating alternatives or any investment, investment cost is not the sole determining factor under ERISA. To the extent cost is considered, comparisons may be made within the asset class and not across asset classes.

03 Asset Class Distinctions

- A diversified portfolio is by design exposed to a wider range of risks, but at less concentrated amounts than less diversified portfolios exposures.
- The alternatives investment universe includes diverse categories of private investments, one or more of which may enhance the diversification of a plan's QDIA or other designated investment alternative. Diversification of asset classes is a key principle of ERISA.
- Alternative investments can be evaluated by their investment characteristics and the role they play in the portfolio (such as income, growth, diversification) in determining how best to utilize them as part of a defined contribution investment solution.

Operations 04

These DCALTA principles cover Participant Investment Options (PIOs) that are either within or outside DC core plan menus. A PIO may be a single manager, asset class, or strategy, or may be a multi-asset approach such as a balanced fund or a target date fund (TDF). Each PIO is separately managed solely in the best interest of participant investments in that PIO, including for liquidity purposes. PIOs may have multiple components (such as asset classes) and multiple managers/funds within each component.

- Overview. The implementation of alternative investments into defined contribution plans may prudently take different operational approaches in PIOs that dictate alternatives exposure.
- Liquidity. The benefit of an illiquidity premium may be balanced with the need to maintain sufficient liquidity for participant flows and allocation decisions. For further guidance, see DCALTA white paper "Liquidity Framework For Inclusion of Alternative Assets in DC Plans: A Guide for U.S. Plan Sponsors and Industry Stakeholders", published October 2023.
- Valuation. The valuation of illiquid investments occurs within the broader allocation for a fund the participant is accessing, where daily valuation is the norm. There are an umber of solutions for valuation of private market investments that can be used to support this industry process.
- Other Operational Factors. Greater adoption of private market investments can benefit from improved operational compatibility with public assets in multi-asset funds, as the industry moves toward operational standardization, where appropriate.

05 Participant Communication

- Communication materials should seek to disclose general information on the private asset classes and characteristics of private market investment exposure within PIOs, with disclosures varying based on the level of materiality.

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