

Use of alternatives in target date and balanced options by large U.S. plan sponsors: 2022

2022 Average Asset allocation of target date and balanced options in the CEM DC database

	Target Date			Balanced
	All	Off-the-shelf	Custom	All
Total Stock	67.0%	68.9%	63.5%	53.9%
Fixed Income	29.4%	29.1%	29.8%	40.7%
Commodities	0.38%	0.33%	0.47%	0.21%
REITs	1.52%	1.37%	1.82%	0.41%
Private Real Estate	0.80%	0.08%	2.16%	1.14%
Private Equity	0.00%	0.00%	0.00%	0.49%
Risk Parity & Hedge Funds	0.39%	0.00%	1.13%	0.40%
# of Sponsors	106	70	36	32
Total Assets (\$Bn)	\$312	\$135	\$177	\$23

Figures shown represent an equal weighting of each plan sponsor. Target date options for a given sponsor have been combined based on assets.

As a point of comparison, the average allocations to real estate, private equity and hedge funds or risk parity are *each* over 5% in CEM's database of U.S. defined benefit pension plans. See <https://www.cembenchmarking.com/ri/insight/34>

2022 Median allocations to alternatives in target date options (non-zero allocations)

	Target Date			Balanced
	All	Off-the-shelf	Custom	All
Private Real Estate	5.5%	2.6%	6.0%	5.5%
Private Equity				7.1%
Risk Parity & Hedge Funds	10.1%		10.1%	11.7%

Allocations to alternatives in the top table are significantly impacted by most target date and balanced options not having allocations to alternatives. If a plan does include alternatives within balanced or target date options, they form a more meaningful part of the allocation. The table immediately above shows the median allocation weight to each alternative type when it is used in a target date option (i.e. the median non-zero allocation).

Cost of target date and balanced options with alternatives

Target Date or balanced options in the database that include any combination of real estate, private equity or risk parity/hedge funds had an average investment manager cost (excluding administration) of 25 basis points. All other target date and balanced options had an average investment manager cost of 12 bps. The options with alternatives tended to also be more active in traditional asset classes than those options without alternatives.

The CEM DC database

As of Jul 13, 2023, the 2022 CEM DC Database contains option level allocations, costs, benchmarks and returns for 117 U.S. defined contribution plan sponsors, covering \$1.2 trillion in assets. Sponsors provide asset allocation for each target date or balanced option (i.e. they report allocations separately for 2030, 2035, 2040, etc. target year options). Prior to 2017, alternatives were reported as a single allocation within target date and balanced options. The database extends back to 1997.

About CEM Benchmarking

Our business is providing objective, actionable benchmarking insights into maximizing value for money in investments and pension administration. For Defined Contribution plans of all shapes and sizes, we arm DC plan sponsors with an annual, objective, and defensible fee and performance review process.

BenchmarkDC is our comprehensive benchmarking service for Defined Contribution plans. In addition to BenchmarkDC, since 1992, we've also benchmarked managed asset pools, primarily Defined Benefit from around the world. This second, global database covers 300+ fund organizations and over \$13 trillion in assets.



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Use of alternatives in target date options by large U.S. plan sponsors versus U.S. DB plans: 2018–2022

2018–2022 Average allocations to alternatives in target date options (only sponsors reporting for all years)

	Target Date				
	2018	2019	2020	2021	2022
Private Real Estate	0.9%	1.3%	1.0%	1.2%	1.0%
Private Equity	0.0%	0.0%	0.0%	0.0%	0.0%
Risk Parity & Hedge Funds	0.7%	0.7%	0.6%	0.6%	0.6%

Figures shown represent an equal weighting of each plan sponsor. Target date options for a given sponsor have been combined based on assets.

2018–2021 Average allocations to alternatives in U.S. defined benefit plans (only sponsors reporting for all years)

	Target Date				
	2018	2019	2020	2021	2022
Private Real Estate	5.3%	5.1%	4.9%	5.0%	
Private Infrastructure	0.5%	0.5%	0.6%	0.6%	
Private equity	6.5%	6.4%	6.7%	8.2%	
Private credit	1.4%	1.5%	1.6%	1.6%	
Hedge funds	4.5%	4.0%	3.8%	4.1%	

Figures shown represent an equal weighting of each plan. 2022 Defined Benefit data is not available until fall 2023.

CEMs U.S. DB Database

CEM's U.S. Defined Benefit Database is used here as a comparison point for the allocations to target date options. The 2021 CEM U.S. Defined Benefit Database contains asset class level holdings, implementation approach, costs, benchmarks and returns for 150 U.S. defined benefit plan sponsors, covering \$5 trillion in assets. It is a subset of CEM's global \$13 trillion investment benchmarking service database. The database extends back to 1991.



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