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Publishing

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Published on October 24, 2025

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The New Face of Private Markets in Your 401(k)

Private assets include more than PE and VC

PitchBook is a Morningstar company providing the most comprehensive, most accurate, and hard-to-find data for professionals doing business in the private markets.

Key takeaways

- There is much excitement stemming from the Mansion House Accord in the UK and the “Democratizing Access to Alternative Assets for 401(k) Investors” executive order in the US, each encouraging making private market investments available to DC participants.
- The language coming from the UK and US governments, as well as asset managers working on providing products to DC audiences, purposely uses general phrases like “alternative assets,” “private market investments,” and “private assets,” which are inclusive of many asset classes, including private credit, real estate, and infrastructure. Income-producing private assets are the best fit for offerings that allow frequent contributions and periodic withdrawals, which may disappoint those expecting this movement to provide access to more high-octane PE or VC.
- The asset managers most eager, and most capable, of absorbing potentially enormous inflows from this new source of capital may have the most recognizable names, but the products they are bringing to market will not be the ones that earned them their leadership positions.

Introduction

During a recent conversation about private assets going into defined contribution (DC) retirement plans, I had an important realization: Many people's assumptions and expectations about what this means are markedly different from what the reality currently looks like. I was reminded of the popular meme that starts with a job title, then proceeds to show what the person's boss thinks he does, what his parents think he does, and what he actually does. I realized that the public/private convergence that so many are talking about fits neatly into the meme's truth. The articles on the subject often point to what it will mean to include the high-octane areas of PE or VC into investor portfolios, but looking at the product offerings designed for the masses and the realities of DC cash flows, the private market exposures will likely be mostly income-generating private credit, real estate, and infrastructure.

The arguments for the democratization of private markets

Many arguments have been made in support of extending private assets to more people than just the institutions or individuals able to clear certain wealth or income hurdles.¹ One commonly cited loophole and rationale for a less restrictive regime was that individuals with defined benefit (DB) pensions—a retirement offering available to a diminishing number of workers over the past 40 years—profited from exposures to investment strategies such as PE, VC, and private credit. In actuality, because the funding of and payout from DB plans come largely from plan sponsors, it is the employers that benefit from the diversification and increased return potential of illiquid assets. DB plans promise to make a certain level of payments upon an employee's retirement and must fund the plans appropriately to be able to do so. The benefits thus accrue to employers that will have to pay less into the pension if investment returns are stronger.

Another pro-democratization argument has been that so many more companies are staying—or going—private that the ability to gain exposure to the highest-growth portions of the economy has been curtailed. Companies are more frequently waiting until they are mature before listing, if they list at all. Most individual investors are excluded from investing directly in VC and often can only participate in that part of the market through small allocations to pre-IPO companies within crossover funds.² In addition, more platforms are being established to facilitate tokenized trading in private companies,³ but buying these late-stage companies is not likely to provide the return—or risk—profile of VC. By the time individuals can gain exposure to these companies, it is much later in a company's lifecycle, after significant wealth has already been created. In fact, the purchase of shares in these companies by crossover investors often facilitates the conversion of paper gains to cash profits for the early investors.

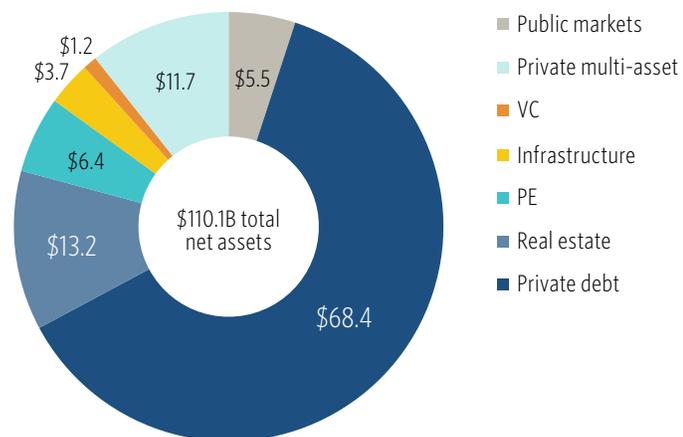
1: Please see our [Access Points for the Masses](#) analyst note for a discussion on the changing landscape for accredited and qualified investors.

2: For more on crossover funds mixing public and private investments, please enjoy [What's Old Is Now New Again](#).

3: "Tokenization Is Allowing Retail Investors To Invest in Private Companies—But There Are Risks," MarketWatch, Gordon Gottsegen, August 12, 2025.

Investors and those reporting on investment trends seem excited about the expansion of access to private markets to those historically excluded, often through funds structured to be more investor-friendly for individuals. We described this trend initially in [The Evergreen Evolution](#), which was our first effort to bring data on these funds to our readers. As we noted in that piece, every evergreen structure save tender offer funds was dominated by credit (interval funds and business development companies) or real estate (non-listed REITs). This is because the liquidity these funds offer is better paired with income and rent-producing assets. We followed up that note with [The Return of Evergreen Funds](#), where we introduced methodology for our upcoming evergreen fund indexes and also updated our data showing the strategy breakdown of the evergreen fund space, as reproduced below. It is important to note that, despite the fact that the excitement around the public/private convergence is focused on equity stakes in private companies, the vast majority of the assets managed for individuals are invested in private debt and real estate.

Share of Morningstar-tracked evergreen fund net assets (\$B) by category



Sources: Morningstar and PitchBook • Geography: US • As of April 30, 2025

Expect much more data and analysis from our research team on this topic in the coming quarters.

The executive order

While the democratization of private markets via DC plans has been on the minds of investors and asset managers for some time now, things came to a head in 2025: first with the Mansion House Accord in the UK in May,⁴ and then with the August release of the US executive order (EO) "Democratizing Access to Alternative Assets for 401(k) Investors." In [Issues Around Private Assets and 401\(k\)s](#), we wrote up some initial thoughts about the, at the time, potential EO. We discussed some of the issues that employers have been facing related to litigation and are likely to face in constructing product offerings that will fit the cash flow profile of a 401(k) plan. Because contributions to these plans occur on a frequent basis, the only practical

4: "Pension Schemes Back British Growth," GOV.UK, HM Treasury, Torsten Bell MP, and The Rt Hon Rachel Reeves MP, May 13, 2025.

implementation of private market assets into DC plans under current rules appears to be as part of a sleeve through target date fund lineups or managed accounts, which will take time for employers to agree to adopt.

Since the EO came out on August 7,⁵ the picture has not been made much clearer, as it instructed the Department of Labor (DOL), the Securities and Exchange Commission, and the Department of the Treasury to come up with rules and guidance by February 3, 2026, that would further the cause of getting private assets into 401(k) accounts. It did cite “burdensome lawsuits” as a problem, though how to prevent those was not made clear. The fear of lawsuits has been a primary reason for the little innovation in 401(k) options since the DOL under the first Trump administration indicated that it was not in conflict with one’s fiduciary duty to offer 401(k) options that are inclusive of private markets.⁶ While the Biden administration did suggest that a high level of caution should be undertaken in incorporating private assets into 401(k)s, it did not rescind the original guidance, saying that, in principle, it was okay.⁷

It is important to note that the EO does not mandate the inclusion of alternatives, but it does say that “every American preparing for retirement should have access to funds that include investments in alternative assets.” The sentence does discuss suitability, however, going on to say “...when the relevant plan fiduciary determines that such access provides an appropriate opportunity for plan participants and beneficiaries to enhance the net risk-adjusted returns on their retirement assets.” In all cases, the plan fiduciary is still charged with properly selecting the products that will be included as options in a 401(k), and that may be a hard sell, even assuming the litigation threat is mitigated, given the perception of higher risk and the likelihood of higher expenses.

The EO speaks to “alternatives” generally, including private market equity and debt, real estate equity and debt, digital assets, commodities, and infrastructure. Yet, much of the public conversation since has been focused on how well PE has done versus public equities, ignoring the other asset classes that should be included in the discussion. In fact, given the income components of debt, real estate, and infrastructure, and the need for liquidity in 401(k) accounts to facilitate rebalancing, those are the asset classes best suited for target date funds.

As an aside, in many cases, the public versus private PE analyses being published are flawed because PE IRRs have been compared with the time-weighted returns of public market investment reporting. For a refresher on why this is not appropriate, read our Q1 note, [Benchmarking and Returns: Why Are There So Many Numbers?](#) One of the main takeaways is that IRRs only reflect the assets that the drawdown fund asset manager controls at the time it is in control of them—after the drawdowns and before the distributions. The IRR ignores the assets that have been committed but not called, which are often in investments or cash not earning PE

5: “Democratizing Access to Alternative Assets for 401(k) Investors,” [The White House, August 7, 2025](#).

6: “U.S. Department of Labor Guidance on Private Equity Investments in Defined Contribution Plans,” [US Department of Labor, Employee Benefits Security Administration, June 3, 2025](#).

7: “U.S. Department of Labor Supplement Statement on Private Equity in Defined Contribution Plan Designated Investment Alternatives,” [US Department of Labor, Employee Benefits Security Administration, December 21, 2021](#).

returns. Time-weighted returns assume that all of the capital meant to be invested was invested the whole time, regardless of whether it was in cash or the highest-octane investments.

The best funds?

To accommodate DC investors' unique cash flows, multi-asset funds incorporating private market investments will need to be able to absorb—and invest—capital every pay period, which is usually twice each month or every two weeks. In terms of outflows or rebalancing, DC plans in the US must allow participants “to give investment instructions at least once a quarter, and perhaps more often if the investment option is volatile.”⁸ It is difficult to imagine how frequent movements of cash into and out of DC offerings will allow target date funds or even managed accounts to provide best-in-class PE exposures.

There is a reason PE has been offered through drawdown structures for decades: Because they are buying control positions, it takes time to identify the best companies and arrive at the right price. The skill set of the fund managers is in the purchase, management, and sale of majority stakes in companies, not the handling of the uncalled capital commitments of LPs. In DC offerings and the evergreen funds designed for the private wealth space, the funds will have capital on hand when they may not have any attractive companies lined up to purchase. This will lead to either cash drag or putting capital to work in something other than what the investor hoped to get when choosing the fund. The vehicles will need to put money to work on a constant basis, whether it is a good time to buy or not. This may be an easier prospect for credit, where direct lenders can easily break apart loans and sell them on through an increasingly active secondaries market; but it is more difficult for PE, where taking a control position in a company is an important part of the value position.

It is currently unclear how the target date fund providers will implement exposures to private markets: direct investments, interval funds, custom funds, funds of funds, or some other method. Some early announcements from fund managers targeting this space indicate, however, that some offerings will be implemented with captive exposures to a particular fund manager's products, while others may be operating in an open architecture, giving the target date or managed account fund manager the ability to allocate to a wider range of options.

One example of the captive model is State Street,⁹ which has stated that it will allocate to Apollo Aligned Alternatives (AAA) for private market exposure. AAA is an evergreen, semi-liquid structure with over \$20 billion, \$12 billion of which is from Apollo's balance sheet.¹⁰ The fund mixes private market assets across a variety of strategies found within Apollo's investment platform, including credit, equity, real estate, and more. One real advantage Apollo holds in this case is a fund with a track record longer than 10 years, due to the balance sheet money in the product

8: "Meeting Your Fiduciary Responsibilities," US Department of Labor, Employee Benefits Security Administration, September 2021.

9: "A Target Date Fund That Unlocks Private Market Access for Retirement Investors," State Street Investment Management, n.d., accessed October 14, 2025.

10: "Apollo Aligned Alternatives (AAA E-1)," Apollo, n.d., accessed October 14, 2025.

from Apollo itself. It should be noted, however, that the 10-year track record is not fully representative of what an investor would get today, as the asset allocation will have shifted over time, as Apollo has added more strategies to its lineup since going public in 2011.

In another example, Empower, which lists itself as the second-largest retirement services company in the US,¹¹ is assembling a roster of “top-tier private investments fund managers” that may be included in its managed account solutions. It, too, lists a number of strategies, not just PE, in the private market investments it plans to offer.¹² This open-architecture approach puts Empower in the position of curating a list of the funds that it deems to be top-tier based on criteria of its choosing. Firms already announced as being aligned with Empower’s delivery model include Apollo, Franklin Templeton, Goldman Sachs, Neuberger Berman, PIMCO, Partners Group, and Sagard. Empower indicates that the private investments in its retirement solutions will provide “limited exposure” to PE, private credit, and real estate, keeping liquidity needs and fees as key considerations.

In the mass market, the fund managers with the strongest brands and marketing power will have a distinct advantage over those with fewer resources. There are a few reasons, however, why investors may look with caution at what is on offer. While many criteria may be used to determine that a prospective fund will be the best option on a go-forward basis, brand name may not be the most predictive. But if the private wealth space grows rapidly, as many in the industry believe it can, only the largest asset managers may be able to absorb the flows that could result. But what funds will be accepting these assets? Even if the biggest managers are “the best” by some historical metric, the flagship funds upon which they built their brands are unlikely to be part of the implementation plan, as the liquidity profile of a drawdown fund is not a good fit for the bi-weekly inflows of a DC plan.

Conclusion

While some imagine that the democratization of private markets will mean gaining access to the world’s hottest companies, practical considerations should temper people’s expectations. The private assets best suited to meet the structural issues of DC or semi-liquid structures will be income-producing assets like credit, real estate, or infrastructure, which are better able to absorb large and frequent inflows and provide the liquidity required by the use cases they have been created to serve.

11: “This is Empower,” Empower, n.d., accessed October 14, 2025.

12: “Empower to Offer Private Markets Investments to Retirement Plans,” Empower Press Center, May 14, 2025.