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401(k)s and the next wave of democratisation

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As the Department of Labor sets out how 401(k)s can gain access to private markets, investors are looking to move past the challenges which democratisation has posed so far. But questions remain over how illiquid, opaque assets can become compatible with retirement plans.

By Jack Arrowsmith, London

The democratisation of private markets was once just an aspiration for fund managers, but it has now well and truly arrived.

Through retail-focused channels such as BDCs, firms have begun to tap into what Blackstone has estimated is $80tn of individual investor wealth globally.

But the process has not been without its challenges. Misalignment between the liquidity demands of retail investors and the constraints of the funds themselves saw many having to cap redemptions in Q1.

Blue Owl's direct lending and tech-focused lending vehicles saw redemption requests of 21.9% and 40.7% of the NAV respectively, both capping at 5%. Apollo's BDC also capped at this rate, after receiving requests amounting to 11.2% of NAV.

As one wave of democratisation crashes, another is building. On 7th August 2025 US President Donald Trump signed an executive order instructing the Department of Labor (DoL) to provide guidance on a fiduciary's duties when capital from 401(k)s, the US employer-sponsored defined contribution pension plan, is invested in alternative assets.

While historically some allocation of 401(k) capital to alternatives has occurred, fiduciaries have generally been reluctant to invest due to litigation concerns.

The higher risk and fees associated with private markets investments meant that if they did not perform well, fiduciaries could be accused of pursuing strategies which were against the best interests of plan participants.

The DoL's proposed guidelines, released at the end of March with public comment until June, aim to establish a 'safe harbour' framework, defining clear guidelines for prudent investments in alternatives, to reduce the litigation risks for fiduciaries.

Even as private credit funds are dealing with the divergent demands of retail investors compared with institutions, another strand of this investor base is set to join in.

For 401(k)s, the arguments for private markets involvement are similar to those presented to the private wealth channel: broadening access to outperformance.

According to research from MSCI, private equity buyout funds delivered annualised outperformance of approximately 3.8% against public equity indexes across the period 1994–2024.

"The reason that you would add a sleeve of private markets is because of the enhanced risk/return profile these portfolios have historically offered," explains Dan Cahill, head of defined contribution at Partners Group.

Redemption risk

For private credit, the liquidity demands of retail investors has been a key challenge. Here, 401(k)s have an advantage: individuals are looking to lock capital up for the long-term, not pull out after a particularly tough quarter.

Not only is early withdrawal unlikely, plan participants are restricted from doing so. Notwithstanding special dispensations based on hardship, participants incur a financial penalty if they withdraw before the age of 59 and a half (or 55 in some cases).

Of course, the liquidity challenge remains once participants can withdraw penalty-free. Here, fund structures are key.

"The consensus across the industry is that access to alternative or private market assets will be in the form of multi-asset solutions," says Deb Boyden, head of US defined contribution at Schroders.

This structure ensures that the retirement plan is viewed as the investor, not the plan participants, and private market funds can continue to be exempt from the same regulations which mutual funds face under US securities law.

"To make sure a private fund can legally be included in a 401(k), employees cannot invest in it directly, it must instead sit inside a broader diversified fund, managed by professional asset managers," explains Erin Cho, a partner at Mayer Brown who leads the firm's ERISA fiduciary practice.

Capital from 401(k) plans could be invested in a target date fund (TDF), for instance, which in turn invests in a collective investment trust (CIT) with a sleeve that has some private markets allocations.

In February Schroders announced a partnership with Apollo to develop a CIT for the US defined contribution pension market, with the product due to launch later this year.

Initially, the private markets sleeve is expected to be small. "The modelling we have done is using a 10% allocation to a target date fund," Boyden says.

In the same way that TDFs typically reduce risk overtime, a multi-asset fund could build up on illiquid assets early on, and then reduce that illiquidity over time as participants get closer to retirement and need to access them.

"There may be two versions of a target date fund: one with access to private markets, and one without," Boyden explains. Participants would be able to choose between the two, with the allocations themselves being left to an investment professional.

The valuation question

So far, broadening access to private markets has also meant an increased demand for transparency, especially on valuations.

"Democratisation is usually most effective when products become more fungible and commoditised, as it's an easier point of comparison," says Mitchell Caplan, CEO of retail-focused private markets platform Willow Wealth. "The more opaque they are, the harder it is to do."

With a new investor base more accustomed to the regular pricing of public markets, funds are moving towards more frequent NAV marking. Apollo has pledged that by the end of September it will be providing daily pricing for some of its credit funds.

Under the DoL proposals, fiduciaries must ensure that the selected alternative investment can be "timely and accurately valued in accordance with the needs of the plan".

With 401(k)s being priced daily, this indicates that some form of daily valuation will be required for the private assets which the CIT is investing in, to ensure it remains consistent with the plan.

"We need to be able to provide the investment partner – the target date fund, or managed account – with a daily valuation for their private markets exposure on which the client can transact," says Cahill.

That being said, there are nuances on how these valuations would be reported.

"The expectation is generally daily valuation, but that doesn't necessarily mean daily valuation being reported to the plan fiduciaries or the participants, certainly not the participants, as the private fund itself is not the direct investment option available to them," says Josh Lichtenstein, an ERISA and benefits partner at Ropes & Gray. ERISA refers to the US federal law that regulates pension plans.

He continues that "we would not expect an underlying private fund that's incorporated one of these products would go from quarterly to daily NAV".

Instead, Lichtenstein explains that there would be a need to "develop a methodology for deriving daily NAVs based on whatever the last reported price was of the underlying private fund," with multiple data sources used to interpolate the value of those illiquid assets.

While the industry is moving in this general direction, there is a degree of scepticism as to whether daily reporting of the value of private assets is possible, or if such valuations would be reliable, even if they are not directly visible to participants.

“Private company valuations don’t change day-to-day, nor should they,” says Eric Satz, CEO of Alto IRA, which provides exposure to alternatives for self-directed IRA plans.

The platform gives participants a monthly statement detailing the value of their portfolio, with further updates sent over as and when they are reported. Satz says that it currently gets at most 5% of an individual’s retirement savings, which he expects to rise to 20% over the next 5–10 years.

“Requiring a daily update of a private security within a 401(k) is not even the tail wagging the dog, it’s the last hair on the tail wagging the dog,” Satz says.

Methodologies are also increasingly under scrutiny. The DoL’s proposals outline that valuations should be determined in an independent and “conflict-free” process.

“It’s not exactly clear what conflict-free would mean. It’s not a phrase that is generally used in the ERISA context,” says Lichtenstein.

A CIT could have a valuation process overseen by the trustee, whose fee is based in part on the AUM of the trust. There is doubt over whether such a process could plausibly be considered to be conflict-free.

Lichtenstein says that commenters are pushing instead for the DoL to move towards language that requires firms to rely on an independent third-party for the valuation, as a more realistic standard.

For Partners Group, participation in the defined contribution market comes through its evergreen offering.

“The way our evergreen portfolios are structured, we have a robust process by which we can assign a daily valuation to our portfolios that enable it to be best suited for the retirement vehicles looking to utilise our structures,” Cahill says.

The potential stumbling blocks means that adoption is likely to be gradual, as firms look to solve the remaining problems.

“We are at the very early stages of plan sponsors opening their eyes to the opportunity they have to expand investment options for their participants,” says Cahill.

At the same time, GPs appear ready to capitalise on opportunities as they come. At the end of 2025 Americans held a total of $10.1tn in 401(k) plans, according to the Investment Company Institute. Even a 10% slice of this figure would represent a significant inflow.

Democratisation has had its challenges so far, but with current drags on fundraising firms will find this capital hard to resist.

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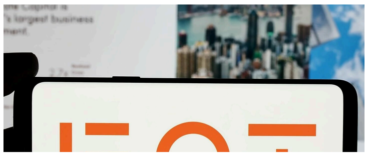

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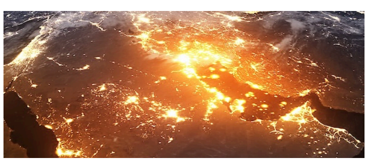

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