



The next chapter in retirement plans.

Private markets are poised to reshape the 401(k) landscape.



Once largely confined to defined benefit plans, endowments, and other institutional portfolios, alternative investments have long played a role in diversified, long-horizon investment strategies.

Defined benefit (DB) plans incorporated private equity, real assets, and other nontraditional strategies decades ago, supported by centralized governance and the ability to manage illiquidity over extended timeframes. By contrast, defined contribution (DC) plans historically remained more insulated from this evolution, shaped by daily liquidity requirements, operational complexity, fee sensitivity, and a cautious regulatory environment.

That dynamic is shifting

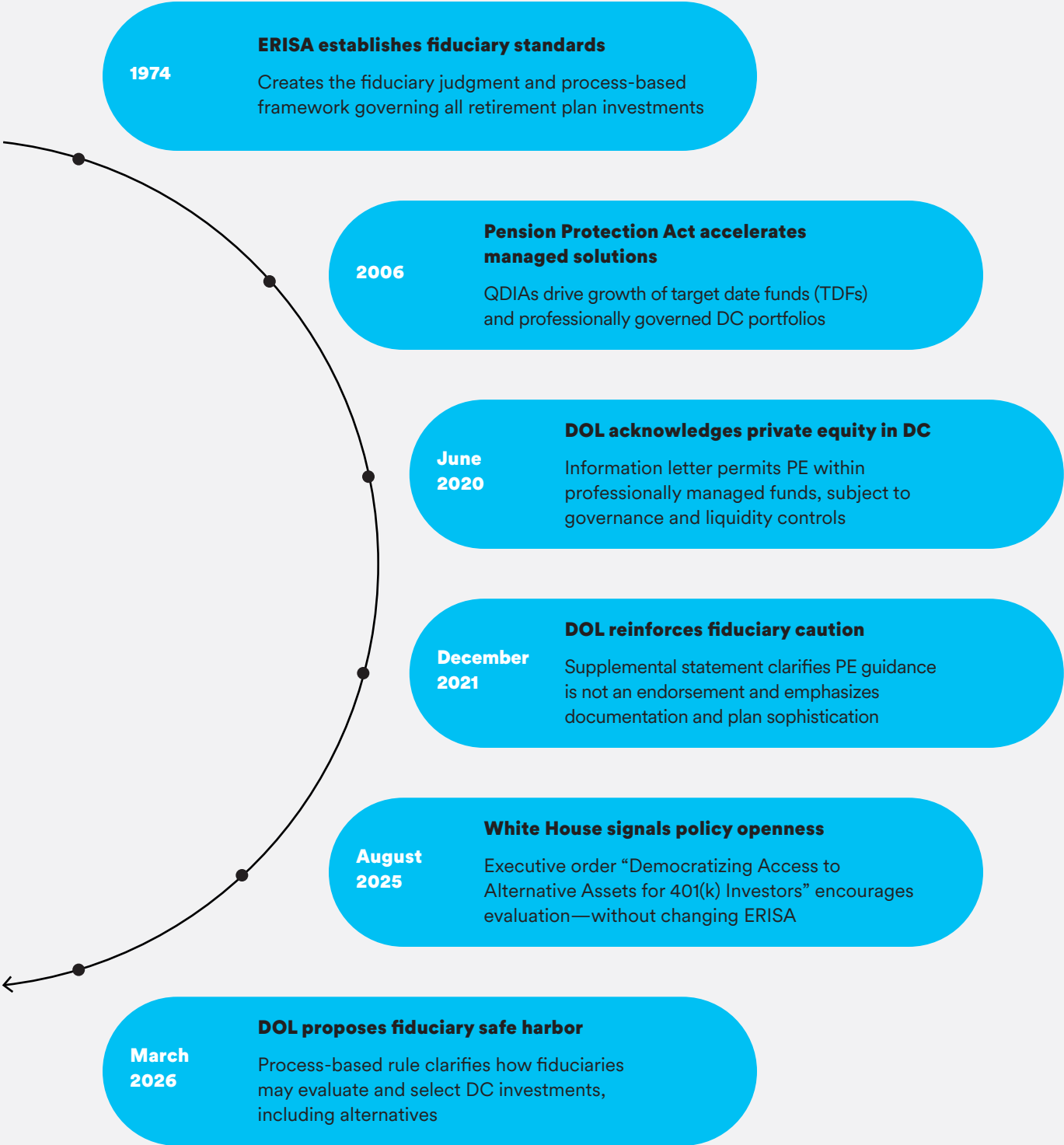
Advances in investment construction, data infrastructure, and governance frameworks are expanding the range of alternative strategies that can be evaluated within DC plans, particularly through professionally managed solutions.

And while recent policy discourse has raised the profile of the convergence of alternatives and retirement plans, these policy developments merely represent a reinforcement—not the initiation—of this shift.

Looking back on the timeline, the White House issued the executive order “Democratizing Access to Alternative Assets for 401(k) Investors” on August 7, 2025, encouraging plan fiduciaries to more actively evaluate whether alternative investments could play a role in improving long-term retirement outcomes, provided fiduciary principles are maintained. While the order does not mandate adoption or alter ERISA standards, it underscores a broader regulatory openness that aligns with trends already underway across the industry.

That direction was reinforced in March 2026, when the U.S. Department of Labor released a proposed rule aimed at clarifying how fiduciaries can evaluate and select investment options in participant-directed DC plans. The proposal lays out a clear, process-oriented approach centered on documentation, comparison, and ongoing review, and applies across asset classes—including strategies that incorporate alternatives. Rather than introducing new requirements or changing ERISA standards, the rule is intended to bring greater transparency around what a well-structured decision process looks like when considering more complex strategies within professionally managed DC solutions.

Key milestones in the evolution of alternatives in DC plans



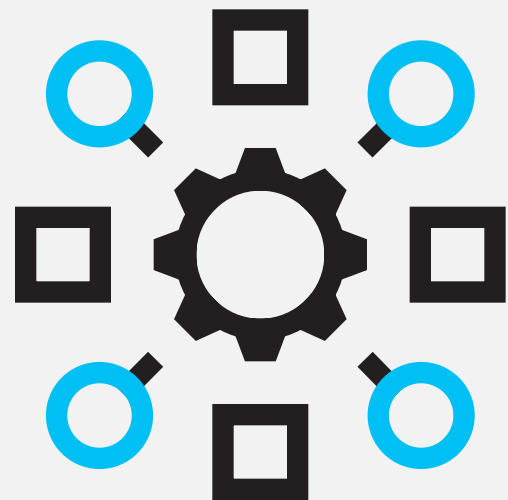
Source: U.S. Department of Labor

Structural innovation has been an important enabler

Collective investment trusts (CITs)—which have become a widely used vehicle within DC plans—offer flexibility around cost, customization, valuation, and liquidity structure that is difficult to replicate in traditional mutual fund structures. Unlike mutual funds, which face regulatory limits on illiquid holdings, CITs give fiduciaries greater flexibility to design liquidity frameworks suited to professionally managed DC portfolios.

As a result, asset managers, advisors, and plan fiduciaries are navigating a more complex landscape—one in which private markets and other alternative strategies are increasingly being considered within retirement offerings. But moving from consideration to implementation requires enhanced operational capabilities, robust data and valuation processes, disciplined risk governance, and clear participant communication.

Rather than a sudden transformation, alternatives in DC plans are evolving through a practical shift in portfolio design—expanding the set of tools available to improve diversification and long-term outcomes while still operating within participant-directed realities. As structures mature and operational capabilities strengthen, plan sponsors and their partners have more flexibility to evaluate where alternatives can add value—especially inside governed solutions where allocation sizing, rebalancing, and liquidity management can be actively managed.



Setting the scene in the market.

Plan participant perspective

Inflation protection and the pursuit of real returns are emerging themes in participant sentiment, though interest in alternatives remains conditional. Recent participant research indicates that approximately 40–50% of defined contribution participants would consider allocating to private market investments if access were provided, with interest increasing year over year.^{1,2} Participants most commonly associate private markets with potential diversification and return enhancement, but also emphasize the importance of understanding risks, fees, and liquidity before allocating.³ As a result, interest is strongest when exposure is delivered through professionally managed solutions, rather than as self-directed investment options.⁴

Diversification and downside risk management have become more salient following sustained equity and bond market volatility since 2020. Participant surveys suggest growing skepticism toward traditional public market only portfolios and increased openness to broader multi-asset diversification.⁵ Rather than seeking direct exposure to complex strategies, participants consistently express a preference for smoother glidepaths and managed portfolio structures that incorporate diversification beyond public equities and core fixed income.^{3,5} This dynamic places indirect pressure on plan sponsors and advisors—rather than stemming from explicit participant requests—to evaluate whether traditional 60/40 oriented glidepaths fully address evolving participant risk concerns over long retirement horizons.

Participants are also increasingly aware of the longstanding role private markets have played in institutional portfolios, though access expectations remain measured. Many retail investors recognize that defined benefit plans, endowments, and foundations have historically allocated to private equity, real estate, and private credit. As wealth management platforms expand access to private markets, participant interest inside DC plans is rising—often framed as a question of access parity rather than a demand for self-directed alternatives.^{1,2} Importantly, most participants do not expect immediate adoption and anticipate that any inclusion of private investments would occur gradually and primarily within target date funds or managed accounts, supported by fiduciary oversight and participant education.^{3,4}

Plan sponsor perspective

Defined contribution plans have evolved from administrative cost centers into strategically important components of the total rewards offering, particularly for employers competing for skilled and mobile talent. While retirement plans are rarely the primary driver of employment decisions, sponsor and consultant research indicates they increasingly function as a signal of benefit quality, governance discipline, and long-term commitment to employee financial outcomes—especially in industries where compensation and benefits packages are closely compared.^{7,8} In this context, offering professionally governed investment solutions that reflect institutional best practices can reinforce an employer’s positioning without implying that every plan must pursue innovation as a competitive differentiator.

At the same time, plan sponsors continue to operate within a well-established fiduciary framework centered on fee reasonableness, benchmarking, and procedural prudence. Over the past decade, heightened litigation risk sharpened sponsor focus on costs, accelerating adoption of lower fee vehicles, passive strategies, and standardized investment lineups.^{9,10} Today, sponsor and consultant surveys suggest that while fee discipline remains foundational, it is increasingly paired with a focus on portfolio quality, diversification, and long-term outcome alignment—particularly within professionally managed options.

Increasingly, sponsors are focused on balancing cost discipline with access to higher quality portfolio construction—particularly within professionally managed options such as target date funds and managed accounts—where diversification, risk management, and long-term outcome optimization are core fiduciary considerations.⁷

Regulatory backdrop

Department of Labor (DOL) guidance and related commentary have increasingly acknowledged that private investments can play a role in DC plans when implemented through professionally managed options such as target date funds and managed accounts—structures that support governance, monitoring, and participant protections.

The 2025 executive order reinforces this direction by encouraging fiduciaries to actively consider where alternative strategies may strengthen diversification, inflation sensitivity, and long-term outcomes, while leaving ERISA standards unchanged. In practice, this environment supports innovation—provided plan sponsors and their partners put the right implementation controls in place, including due diligence, liquidity design, valuation governance, and clear participant communication.

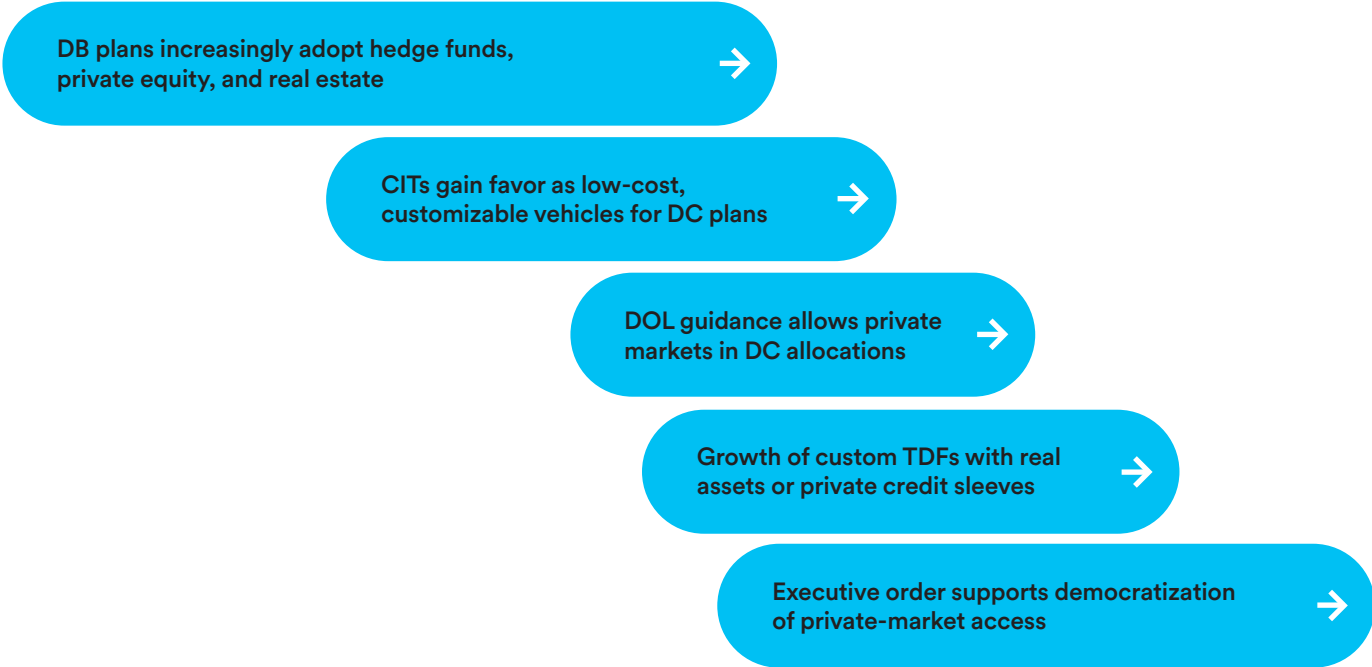
Alongside the 2025 executive order, the Department of Labor’s March 2026 proposal reinforces a regulatory environment that is increasingly focused on clarifying decision frameworks, rather than restricting asset classes—supporting innovation within professionally managed DC solutions when paired with strong governance and oversight.



EXHIBIT 1

Timeline of key milestones in alts adoption (DB vs. DC plans)

1990 1995 2000 2005 2010 2015 2020 2025



Sources: P&I, U.S. Department of Labor

Defining the next chapter: Trends in adoption.

Penetration by plan type

Defined benefit plans have incorporated alternative investments for decades, and it is now common for DB portfolios to include meaningful allocations to private equity, real estate, infrastructure, and other illiquid strategies. Their long-duration liabilities, closed or mature participant populations, and centralized governance structures make them well-suited to managing illiquidity, valuation complexity, and extended investment horizons.¹²

Defined contribution plans continue to maintain lower exposure to alternatives than DB plans, but the gap is beginning to narrow as investment structures and operating models make implementation more workable. Adoption to date has been most visible in custom target date funds, managed accounts, pooled employer plans, and OCIO-supported models—where fiduciaries retain control over allocation sizing, liquidity management, and participant exposure.¹⁰

Where alternatives have been incorporated in DC plans, exposures are typically intentional and risk-budgeted, embedded within professionally managed portfolios rather than offered as standalone menu options. These implementations most commonly focus on private credit and real assets and reflect a broader shift toward institutional portfolio design within DC plans, supported by improving data, valuation, and operational capabilities.⁸

Areas of market focus



Private markets

Encompass private equity, private credit, private real estate, and private infrastructure, and align with long-term retirement horizons when implemented through diversified, professionally managed structures



Hedge-fund-like or absolute-return strategies

Used selectively in an effort to support diversification and potential downside risk management within multi-asset portfolios



Listed real assets

Increasingly evaluated for their potential role in inflation-sensitive portfolio construction



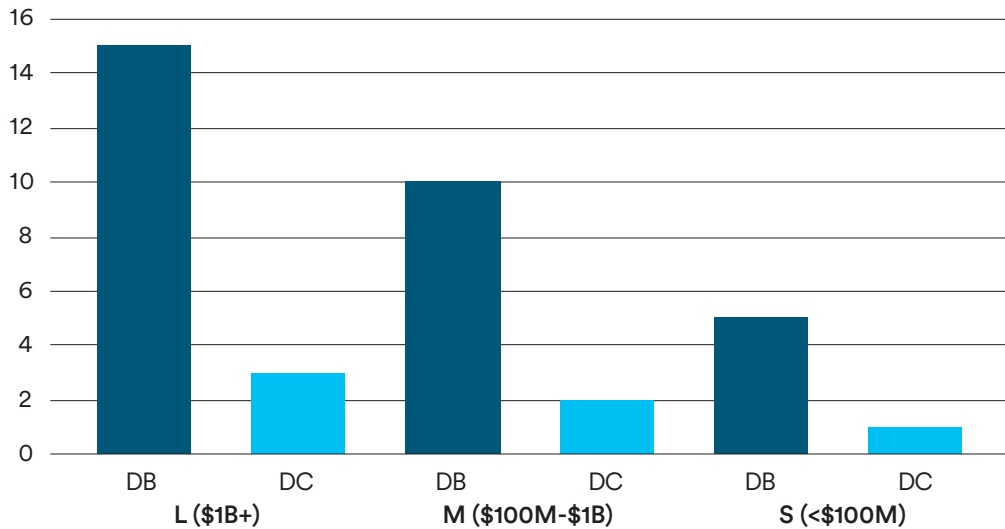
Digital asset related infrastructure

Focused less on direct cryptocurrency exposure and more on the potential use of blockchain or tokenization in an effort to improve ownership tracking, liquidity management, and operational efficiency over time

EXHIBIT 2

Estimated average allocations of alternatives in DC vs. DB plans

% Alts (est.)



Sources: Clarion Partners, Partners Group, Callan

Introducing CITs as the main character.

CITs have become a widely used vehicle in defined contribution plans as sponsors and consultants seek structures that support institutional portfolio design within participant-directed systems. Unlike registered mutual funds, CITs avoid many retail distribution and marketing requirements, which can support more competitive, institutionally negotiated fee arrangements. Their trust-based structure also allows for flexibility in valuation frequency, liquidity terms, and portfolio construction, subject to fiduciary oversight and plan-specific requirements.

This flexibility has made CITs particularly well-suited for incorporating alternative investments into professionally managed DC solutions. Semi-liquid private credit strategies can be structured with defined redemption schedules and periodic valuation cycles, while real-asset exposures can be embedded within target date fund glidepaths to support inflation-sensitive portfolio construction. Hybrid public-private approaches further allow managers to balance diversification benefits with participant-level liquidity needs.

Operating under a bank-maintained trust framework and available exclusively to qualified retirement plans, CITs reinforce an institutional governance model centered on fiduciary responsibility rather than retail distribution. As a result, they have become a common wrapper for private credit, core real estate, private equity exposure, and selected absolute-return strategies within DC plans—where controlled implementation, liquidity management, and ongoing oversight are essential.

Identifying potential plot twists.

Liquidity constraints

Illiquid and semi-liquid assets introduce operational challenges in defined contribution plans, particularly around meeting daily participant transactions and maintaining reliable valuations. Even when implemented through vehicles such as CITs, fiduciaries must carefully design liquidity frameworks, manage liquidity buffers, and stress test redemption scenarios to ensure participant-level liquidity can be maintained under a range of market conditions.

Fee reasonableness

Defined contribution plans operate under a well-established standard of fee reasonableness, supported by benchmarking and documentation rather than absolute cost minimization. While alternative strategies may carry higher headline fees than traditional public market investments, fiduciary scrutiny focuses on whether fees are reasonable relative to services provided, implementation structure, and expected role within the portfolio. As a result, transparent pricing structures, appropriate peer benchmarking, and clear performance attribution are essential components of fiduciary defensibility.

Transparency and participant communication

Alternative strategies introduce additional complexity related to valuation, liquidity, and risk characteristics. Fiduciaries must ensure that participant communications—particularly for professionally managed options—clearly explain these features at an appropriate level, without overstating benefits or understating tradeoffs. Inadequate or unclear communication can increase the risk of participant misunderstanding and, in turn, fiduciary and litigation exposure.

Fiduciary risk and oversight

Sponsors and other plan fiduciaries must ensure that any use of alternative investments is supported by a documented governance process, including:

- Thorough due diligence on managers and underlying strategies
- Clear delineation of fiduciary roles and responsibilities (e.g., consultant, ERISA 3(21) co-fiduciary, or ERISA 3(38) investment manager)
- Ongoing valuation oversight and performance monitoring
- Structural protections designed to mitigate liquidity stress and operational risk

Regulatory considerations

The 2025 executive order encourages fiduciaries to evaluate whether alternative investments could enhance long-term retirement outcomes, but it does not alter ERISA standards or mandate adoption. Regulatory expectations continue to emphasize sound decision-making, documentation, and participant protection. Given the history of shifting policy priorities across administrations, sponsors are well served by building flexible oversight frameworks that can adapt as regulatory guidance and enforcement emphasis evolve over time.


EXHIBIT 3**Barriers to adoption and market responses**

Barrier	Why it matters	Market responses
Liquidity constraints	Daily participant transactions can conflict with the liquidity profile of illiquid or semiliquid assets, increasing operational and fiduciary risk if not properly designed. ^{13,14}	Use of professionally managed structures (e.g., TDFs, managed accounts) with defined liquidity buffers; semiliquid vehicle design; hybrid public/private allocations; scenario and redemption stress-testing. ^{13,14}
Valuation frequency and reliability	Many private assets do not price daily, creating challenges for participant-level accounting, fairness, and monitoring during periods of market stress. ¹³	Smoothed or model-based valuation approaches where appropriate; use of independent valuation agents; enhanced data governance and oversight frameworks. ¹³
Fee reasonableness	DC plans are held to a fiduciary standard of fee reasonableness, requiring benchmarking and documentation rather than absolute fee minimization. Alternative strategies may attract scrutiny if not clearly justified. ^{13,14}	Institutional pricing structures; peer group benchmarking; transparent reporting of fees, services, and portfolio role; alignment of fees with implementation structure and governance. ^{13,14}
Performance	Alternative strategies may have longer measurement horizons and different return drivers than traditional public market options, requiring appropriate evaluation and monitoring. ¹³	Role-based performance objectives; multi-period evaluation (including stress periods); performance attribution aligned to the strategy's expected cycle. ¹³
Performance benchmarks	Benchmark selection can be less straightforward for private and semi-liquid strategies. Fiduciaries need defensible, apples-to-apples benchmarking aligned to strategy objectives, fees, and implementation structure. ^{13,15}	Fit-for-purpose peer groups and custom benchmarks; documented rationale; periodic refresh as vehicles, plan scale, and exposures evolve. ^{13,15}

Looking ahead to future storylines.

Alternative investments are positioned to play a larger role within defined contribution plans, with adoption accelerating first where plan governance, implementation structure, and operating infrastructure are strongest. While allocation expectations vary, industry research commonly anticipates alternatives being used as complementary sleeves—levels that can be meaningful at scale within large DC plans and pooled arrangements.^{16,17}

The trajectory will be shaped less by headlines and more by practical enablement: the continued growth of custom and CIT-based solutions, advances in semi-liquid design, stronger valuation and data capabilities, and clearer participant communications. Over time, these building blocks expand what fiduciaries can implement with confidence—bringing more institutional portfolio tools into DC plans while keeping the participant experience straightforward.

Drivers shaping growth

Custom target date funds incorporating alternatives

Custom TDFs continue to be the primary structure through which sponsors and advisors evaluate alternative exposure, as they allow fiduciaries to control allocation size, liquidity management, and participant experience. Consultant research indicates that custom TDFs and managed accounts are the most common entry points for alternative strategies, particularly among larger plans and pooled arrangements.^{18,19}

Development of semi-liquid structures within DC-appropriate vehicles

Industry research shows increasing experimentation with semi-liquid approaches, including CITs and interval-style designs, intended to balance long-term return potential with participant-level liquidity requirements. Adoption remains incremental and highly plan-specific, with most observed implementations limiting exposure to single-digit percentages.²⁰

Use of more liquid alternative and factor-based strategies

Rather than relying solely on traditional private equity structures, many sponsors and advisors are exploring alternative beta, factor-based, and hedge fund replication strategies that offer some diversification benefits while maintaining greater liquidity and transparency. These approaches are often evaluated as complements to, rather than substitutes for, traditional public market allocations.²¹

Operational and data infrastructure enhancements

Improvements in valuation processes, data integration, and reporting capabilities are increasingly viewed as prerequisites for any broader use of alternatives in DC plans. Industry commentary emphasizes that progress in this area supports governance and oversight, and reinforces the importance of thoughtful design and operating discipline as adoption scales.^{19,22}

Longer-term considerations

Technologies such as blockchain-based tokenization and enhanced secondary market infrastructure are frequently discussed as potential tools to improve ownership tracking, settlement efficiency, and liquidity management for private assets. At present, these developments are best viewed as areas of longer-term exploration, rather than near-term drivers of DC plan adoption.

Market implications for key stakeholders

For plan sponsors

Incorporating alternative exposure within professionally managed options may offer diversification benefits, but it also requires enhanced governance, documentation, liquidity oversight, and participant communication. Sponsor interest remains focused on controlled implementation rather than broad menu expansion.^{10,11}

For asset managers

The DC channel represents a scalable new distribution avenue for alternative strategies, particularly for managers able to deliver vehicles that align institutional portfolio design with participant-level liquidity and governance requirements.¹⁸

For participants

Where alternatives are used, potential benefits include diversification and inflation sensitivity. These must be balanced against higher fees, reduced liquidity, and greater complexity, underscoring the importance of professionally managed delivery and clear communication.^{3,4}

For consultants and advisors

Rather than representing a fundamentally new role, alternatives increase the depth and complexity of existing responsibilities, including manager due diligence, plan-specific structuring, committee education, and ongoing fiduciary monitoring.¹

Bringing it all together.

The 2025 executive order does not change fiduciary standards under ERISA, but it reinforces a broader shift already underway: Defined contribution portfolios are increasingly being designed with an institutional lens, using professionally managed options to incorporate a wider toolkit for diversification and long-term outcomes.

Adoption will not look the same across all plans, but where alternatives are used, they are most effective when implemented through governed structures that manage allocation sizing, liquidity design, and participant communication.

Ultimately, the opportunity is not simply broader access—it is better portfolio construction at scale, supported by strong governance and operational resilience within participant-directed systems.

How can SEI help?

By combining deep experience in CIT administration, data management, valuation support, and operational governance, SEI enables asset managers and plan fiduciaries to evaluate and implement alternative-inclusive solutions.

As alternatives move from concept to consideration within DC plans, SEI's platform and expertise help clients navigate complexity, scale responsibly, and bring institutionally designed solutions to market in a way that aligns with fiduciary expectations and participant needs.



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IMPORTANT INFORMATION

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