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Private markets in retirement plans: Unlocking opportunities

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"Private markets represent important asset classes (e.g., private equity, private real estate, private credit) to a comprehensive asset allocation and make sense within target-date products, managed accounts, or other asset allocation solutions."

- Daniil Shapiro, Director of Product Development, Cerulli Association
"Unlocking the Potential of Private Investments in Defined Contribution Plans"

In August 2025, the US President Donald Trump signed an executive order aimed at broadening the investments available in defined contribution plans (DC plans). On March 30, 2026, the US Department of Labor issued proposed guidance regarding a plan fiduciary's selection of investments, including private market and other alternative investments, in 401(k) plans.[1] US Secretary of the Treasury Scott Bessent commented, "This proposed rule is an initial step in implementing the President's Executive Order in a safe and smart manner, broadening access to additional retirement plan options for millions of Americans while being mindful of the importance of protecting retirement assets."

The term alternative investments is often used as a catch-all to capture anything that is beyond stocks and bonds. The traditional definition includes private markets—private equity, private credit, private real estate and infrastructure—as well as hedge funds. Some may expand the definition to include cryptocurrencies, non-fungible tokens (NFTs), and other non-traditional investments.

1. Source: "US Department of Labor proposes landmark rule to democratize access to alternative investments in 401(k) plans." US Department of Labor. March 30, 2026. Release Number: 26-560-NAT.

The proposed rule is based on the duty of prudence that the Employee Retirement Income Security Act of 1974 (ERISA) imposes on plan fiduciaries when selecting designated investment alternatives (DIAs) for a participant-directed individual account plan (Plan). The proposed rule does not specify which investments are or are not appropriate for fiduciaries to consider but instead outlines the process to be used in selecting investment options. The rule also includes a process-based safe harbor that identifies a non-exhaustive list of six factors to be used in evaluating investments by fiduciaries: performance, fees, liquidity, valuation, benchmarks and complexity.

Why does this matter?

Institutions and family offices have long recognized the value of including private markets for decades. Private markets have historically provided an illiquidity premium relative to their public-markets equivalents,[2] attractive risk-adjusted returns, and diversification benefits.

Exhibit 1: Private Markets Have Historically Delivered Attractive Risk-Adjusted Returns

Historical Performance vs. Risk

10 Years Ending December 31, 2025

Region: Global. Sources: SPDJI, Giliberto-Levy, MSCI Private Capital Solutions, Bloomberg, Cliffwater, FTSE, MSCI Indexes, Morningstar, PitchBook LCD, ICE BofA Indices, Macrobond, Analysis by Franklin Templeton Institute.

Notes: Indexes used: Private Infrastructure: MSCI Private Capital Solutions - Private Infrastructure across all regions; Listed Infrastructure: S&P Global Infrastructure Total Return Index; Private Real Estate Debt: Giliberto-Levy High-Yield Real Estate Debt Index; Private Real Estate: MSCI Private Capital Solutions' fund search results for Private Real Estate across all regions; Private Equity: MSCI Private Capital Solutions' fund search results for Private Equity funds (all categories) across all regions; Direct Lending: Cliffwater Direct Lending Index; Secondaries All Strategies: MSCI Private Capital Solutions search results for global secondaries across all strategies; Public Equities: MSCI All Country World Index, Agg. Bonds: Bloomberg Global Aggregate Index (Total Return), REITs: FTSE EPRA/NAREIT Global REITs Index, Leveraged Loans: Morningstar Global Leveraged Loan Total Return Index, High Yield Bonds: ICE BofA Global High Yield Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results.** Important data provider notices and terms available at www.franklintempletondatasources.com.

2. Source: Davidow, Tony. "The Cost of Being Too Liquid." May 2026.

Private credit has historically provided higher income than most fixed income options, and real estate and infrastructure have historically exhibited low-to-negative correlation to traditional investments. Private markets are versatile tools that can provide increased growth and income, diversification benefits and can help in hedging the impact of inflation.

Based on research conducted by DCALTA,[3] defined benefit plans (DB plans) have significant allocations to alternatives broadly, with roughly 30% to private markets. Of course, DB plans have had access to these investments for decades and often have sophisticated investment committees and/or consultants to conduct due diligence, develop strategic asset allocations, and monitor the results over time.

DB plans and other institutions have long recognized the growing opportunity set in the private markets and the narrower set of options in the public markets. In addition to the attractive risk-adjusted returns above, the size of the US public market is roughly half its count from two decades ago (down from about 8,000 companies in 1996 to about 4,000 companies in 2025),[4] while the number of US private companies has been on the rise. According to a Hamilton Lane report, of all US companies with at least US$100 million in revenue, 87% are private,[5] representing approximately 20,000 companies.

Similarly, while some investors may feel like they have adequate exposure to real estate via publicly traded real estate investment trusts (REITs), the lion's share of the assets are in private real estate (more than 90%). Also, it is worth noting that publicly traded REITs are more highly correlated to equities than private real estate equity.[6]

Exhibit 2: Average Allocations in Defined Benefit Plans by Segment (As of 2024)

In Percentage	US		Non-US	
	Public	Corporate	Public	Corporate
Public Stock	40.8	23.1	41.6	24.7
Fixed Income	24.3	57.1	24	47.8
Commodities[1]	0.2	0	0.5	0
REITs[2]	0.6	0.5	0.2	0.3
Private Real Estate	8.4	4.3	8.5	8.7
Infrastructure	1.8	0.5	8.6	6.5
Other Private Real Assets	1.4	0.3	1.1	0.3
Private Equity	13.5	7.5	8.4	4.8
Private Credit	4.1	2.2	4.8	5.7
Risk Parity & Hedge Funds	4.6	4.1	1.8	1.2
Other Multi-Asset	0.3	0.4	0.5	0

1. Excludes exposure through derivatives.

2. Real Estate Investment Trusts / listed real estate.

Sources: Defined Contribution Alternatives Association (DCALTA) and CEM Benchmarking Inc. Although the information in this document is based upon and obtained from sources we believe to be reliable, neither DCALTA nor CEM guarantee its accuracy or completeness.

3. Source: DCALTA and CEM Benchmarking Report. September 2025.
4. Sources: US Census Bureau, World Bank, Macrobond. As of December 31, 2025.
5. Sources: "Private Market Investing: Staying Private Longer Leads to Opportunity." Hamilton Lane. April 14, 2022. "The Truth Revealed: The private markets universe is less concentrated and larger today than any other time in history" Hamilton Lane. March 08, 2023.
6. Based on 10-year correlation as of December 31, 2025.
Sources: SPDJI, NCREIF, FTSE, Macrobond, Analysis by Franklin Templeton Institute. Indexes used: US Equities: S&P 500 Index; Private Real Estate Equity: NCREIF Fund Index Open End Diversified Core Equity (ODCE) Index; REITs: FTSE Nareit All Equity REITs Index. Indexes are unmanaged and one cannot directly invest in them. They do not include fees, expenses or sales charges. **Past performance is not an indicator or a guarantee of future results**. Important data provider notices and terms available at www.franklintempletondatasources.com.

The DCALTA report notes that DC plans have less than a 1% allocation to private markets. This is due to a number of factors including lack of access, lack of experience with private markets, product structure, liquidity, fiduciary concerns and litigation risks, among others. Note, although evergreen funds offer daily valuations, the underlying investments are illiquid and should be viewed as long-term investments.

According to a Franklin Templeton, Harris Poll survey, there is growing demand from sponsors to include private markets in DC plans.[7]

Exhibit 3: What Does the Research Show?

Franklin Templeton Survey of Plan Sponsors

Over half (53.6%) anticipate participant enthusiasm for private market options, and 42.7% report direct participant requests.
Top motivators for including private markets include portfolio diversification (98.8%), higher potential returns (98.3%), and executive-level interest (97.0%).
96% of sponsors would likely add private market options if clear regulatory guidance were provided.
Preferred investment types include private equity (77.7%), private credit (65.1%), and private real estate (59.0%).
88.6% have already consulted advisors about private markets, and 71.6% would rely on advisors for implementation.
Sponsors favor delivery through professionally managed strategies (66.3%) and core fund options (53.6%).
Key resources needed include performance data (53.8%), regulatory guidance (53.8%), and participant education materials (47.1%).

Source: The Harris Poll on behalf of Franklin Templeton. 2026.

What are the challenges?

While DB plans have allocated significant capital for decades, these investments have not been broadly available in DC plans. According to research by Cerulli Associates, and the Defined Contribution Alternatives Association (DCALTA), “Unlocking the Potential of Private Investments in Defined Contribution Plans,” there are a number of challenges to incorporating private markets in DC plans.[8] Similar to the proposed rule, the report notes challenges including liquidity, valuations, benchmarking, and performance.

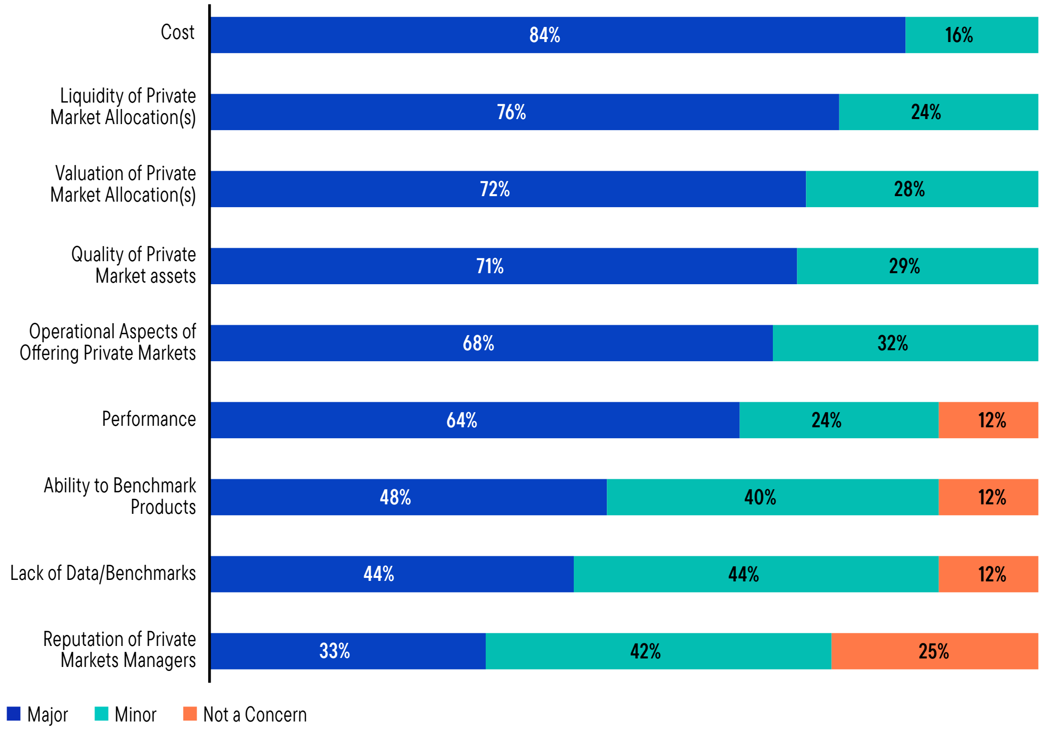
The fees for private market funds are typically higher than those of traditional mutual funds, and may include multiple layers (i.e., management and performance fees). Proposed US Department of Labor (DOL) guidelines do not stipulate that a plan fiduciary select the lowest-cost investment option. Instead, the proposed guidelines focus on whether fees are appropriate, considering risk-adjusted return and any other value the investment would provide. In other words, the DOL recognizes that a plan fiduciary isn’t obligated to select the lowest fee and expense option; this is important for private markets, where the lowest-cost option may not be the best one.

7. Source: Voice of the American Workplace Employer Survey. The Harris Poll on behalf of Franklin Templeton. 2026.
8. Source: “Unlocking the Potential of Private Investments in Defined Contribution Plans.” Cerulli Associates and DCALTA. September 2025.

Exhibit 4: There Are Natural Concerns about Introducing Private Markets in DC Plans

DC Consultants: Concerns about Private Markets in DC

2025



Source: Cerulli Associates. As of September 30, 2025. Region: United States.

Analyst Note: Respondents were asked, "To what extent are the following concerns to your firm about target-date and managed account solutions that provide private market exposures?"

As an industry, we will need to educate all stakeholders about the merits of private markets, their illiquid nature, and their long-term value in DC plans. Each fund will need to be transparent about their costs, valuation methodology, historical performance, benchmarking and underlying holdings.

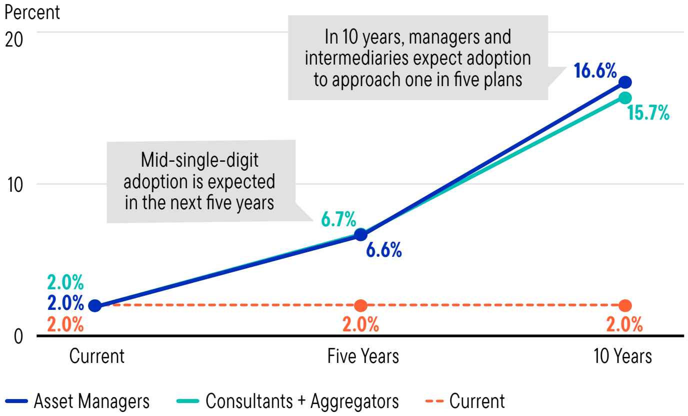
We believe the broader ecosystem of plan sponsors, asset managers, recordkeepers and third-party providers can address these challenges. The Cerulli/DCALTA report notes that target-date-funds (TDFs) are the preferred vehicle for DC plans.[9] Within TDFs, there is a growing acceptance that collective investment trusts (CITs) are effective structures in managing liquidity and rebalancing.

TDFs offer broad diversification, professional management and liquidity management. One of the biggest challenges with incorporating private markets in DC plans is dealing with liquidity management and the reallocation of capital. The CIT structure allows for more effective liquidity management. CITs can maintain a liquidity sleeve to help solve the challenges and move capital more efficiently.

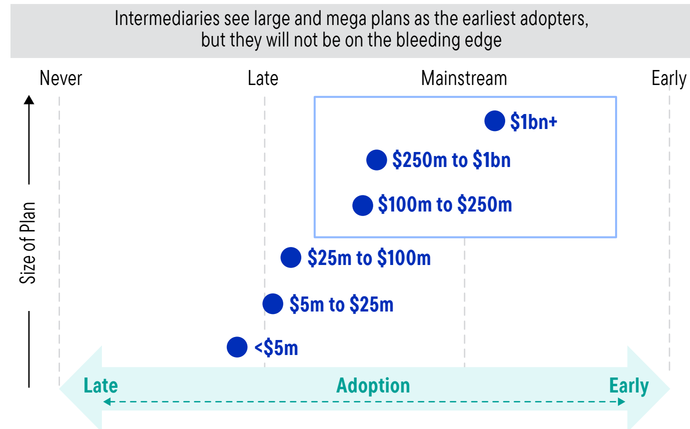
9. Ibid.

Exhibit 5: Planned Growth and Adoption of Private Markets in DC Plans

Asset managers + intermediaries: % of plan sponsor adopting private market solutions, 2025



DC consultants + advisors: Market segment adoption of private markets, 2025



Source: Cerulli Associates. As of September 30, 2025. Region: United States.

Analyst Note: Respondents were asked, for the left chart, "What is your firm's best estimate of the percentage of plans you believe will adopt private market investments in the next 5 years and next 10 years?" and for the right chart, "Where do you think the following plan segments will be on the adoption curve of target-date or managed accounts that incorporate private market investments?"

As we consider the broader adoption of private markets in DC plans, we can leverage the experience of DB plans in allocating capital to private markets. This will likely be a gradual process as key stakeholders get comfortable with the investment merits, operational nuances, and the most appropriate investment options. Larger plans will likely take the lead in adopting these versatile investments, with meaningful adoption accelerating over the next decade.

Why now?

We believe that there has been a confluence of events over the last several years that will fuel the growth and adoption of private markets in DC plans. As we were reminded in 2022,[10] the markets have become much more interconnected over the last couple of decades, and investors need better tools for diversification. In fact, correlations across traditional investments have risen over the past couple of decades.

Fortunately, we have seen product evolution that has helped provide access to a broader group of investors, while offering more flexible features. Evergreen funds are now generally available to investors at lower minimums, and with more flexible liquidity provisions. Note, the underlying investments are illiquid, but there are liquidity provisions for unforeseen changes in client circumstances.

Lastly, we now have access to institutional-quality managers. Many of these managers were initially reticent to offer funds in the wealth and retirement channels due to concerns about investors' ability to stay patient during periods of volatility. However, these new hybrid structures (evergreen funds) allow the managers to invest capital for the long run, while maintaining a small liquidity sleeve to meet redemption requests.

10. Source: Davidow, Tony. "Building Better Portfolios with Private Markets: Rethinking Retirement." 2024. Ibid.

The timing of the proposed DOL guidance for DC plan investments aligns with the evolution of private markets, which became much more accessible in the wealth channel and saw an acceleration in advisor adoption. Trusted advisors can help educate investors about the merits of these valuable tools, their unique nuances and the role they can play in client portfolios. Advisors can help investors with both their personal and retirement portfolios as we as an industry rethink retirement to better serve individual investors.

To learn more about private markets in retirement plans, please visit www.ftprivatemarkets.com and Expanding Access to Alternatives in DC Plans | Diversify & Strengthen Portfolios | Franklin Templeton. To learn more about the expanding opportunities in private markets, subscribe to the Alternative Allocations podcast series Alternative Allocations Podcast.

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Past performance does not guarantee future results.

Investments in **alternative strategies** may be exposed to potentially significant fluctuations in value.

Investment strategies involving **private markets** (including investments in private companies and/or securities) are complex and speculative, entail significant risk, should not be considered a complete investment program, and are suitable only for persons who can afford to lose their entire investment. Such strategies may have **limited liquidity** in both the investment products and their underlying investments. Underlying investments may never list on a securities exchange and lack available information due to their private nature. These factors may negatively impact such investments' market value and a manager's ability to dispose of them at a favorable time or price. Additionally, **certain investment fund types** mentioned are inherently illiquid and suitable only for investors who can bear the risks associated with the limited liquidity of such funds. Such funds may only provide limited liquidity through quarterly repurchase offers that may be suspended at the discretion of the manager or the fund's board. There is no guarantee these repurchases will occur as scheduled, or at all. Shareholders may not be able to sell their shares in the fund at all or at a favorable price.

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