

# Revamping Retirement Episode 78

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**Intro:** [00:00:00] Covering the ever evolving retirement plan landscape to help identify the biggest opportunities for plan sponsors, CAPTRUST presents Revamping Retirement.

**Matt Patrick:** Hello and welcome to another episode of Revamping Retirements. My name is Matt Patrick and I will be co-hosting today with Jennifer Doss. Jennifer, how are you doing?

**Jennifer Doss:** Doing great, Matt. Thanks.

**Matt Patrick:** Our topic this month is a very trendy one in the industry. we're gonna be talking about alternative investments. So Jennifer, you just did a panel on this at an industry event. We've seen a lot of. Industry media coverage on the topic. So there's been a lot of launches from different asset [00:01:00] managers. We saw a big announcement from a record keeper making these available.

**Matt Patrick:** We've even seen commentary from people like Senator Elizabeth Warren on the topic. it's getting a lot of buzz. So it felt like it was a perfect time to discuss that on this podcast. To do that, we are joined by two guests. We are gonna have Lucian, Ky and Josh Charleston from Morningstar joining us to talk about this.

**Matt Patrick:** Gentlemen, welcome to the show.

**Josh Charlson:** I gave a, an intro of just your names, but if you wouldn't mind, Lucian starting with you, will you both just run through what's your role at Morningstar and why you all are who we've, tagged a talk about this with us today?

**Lucian Marinescu:** Yeah. happy to be here. I'm Lucian Marinescu. I lead the investment team at Morningstar Retirement. and we focus on managed accounts and target-date strategies. We manage portfolios for millions of, us. plan participants and our approach is what we call total wealth, where we don't look just at the retirement assets, but we look at outside accounts, social security, investor, time horizon, pensions [00:02:00] to basically personalize and build resilient retirement strategies.

**Lucian Marinescu:** And increasingly, that includes evaluating the role that private markets play in retirement investing.

**Matt Patrick:** Josh, how about you?

**Josh Charlson:** I'm a director in our manager selection group, and one of the things that the team does is we're the investment team that supports our fiduciary services business. So this is within our retirement group. We act as a co-fiduciary to plan sponsors, and we help select the investments for, retirement plan menus.

**Josh Charlson:** And lineups acting as a 3 21 or a 3 38, co-fiduciary. So our clients are large record keepers, and then they offer our services to, plan sponsors typically in the small plan market.

**Jennifer Doss:** Thank you for those backgrounds because I think at Morningstar you get to see a breadth of ways that you could incorporate something like this, ways to use the asset class, [00:03:00] how people, the individual managers and how we might think about those from an individual perspective.

**Jennifer Doss:** So just a level set though, when we talk about alternatives, and I think we're gonna use the naming conventional alternatives and private markets interchangeably here. And maybe that's fair, maybe that isn't. But, for purposes of our conversation, we might go back and forth when we talk about alternatives.

**Jennifer Doss:** We're gonna talk about private equity, private debt, and private real estate, and that's gonna be what we focus on today. Can you explain very briefly what those asset classes are that I just mentioned?

**Lucian Marinescu:** Sure. When we talk about private markets, in retirement context, we're referring to investments that don't trade on public exchanges. Because of that, they have different dynamics such as pricing, liquidity, transparency, than stocks and bonds. So specifically private equity means investing in private companies.

**Lucian Marinescu:** Either early stage venture or more commonly mature companies, through leverage buyouts. The [00:04:00] pitch here is often that it offers higher returns access to skilled manager selection. Our researchers will

talk it, it's a little more cautious on that. many of the performance attributes of the asset class can be assigned to different characteristics like leverage or size.

**Lucian Marinescu:** Private credit involves, non-bank lenders providing loans to companies that might not, qualify for, traditional financing through commercial lending. this market has actually grown, substantially over the last, 10, 15 years, especially after the global financial crisis.

**Lucian Marinescu:** it's attractive in a rising rate environment, because it offers floating rate structures, and historically has shown some solid risk adjusted, returns. Private real estate is probably the one that's most common in the retirement. Space and DC plans. it's basically investing directly in properties, not through REITs, but actual buildings.

**Lucian Marinescu:** and it's used for income, [00:05:00] inflation, hedging and diversification. It encompasses a wide range of assets from, core. Real estate assets, stabilized assets and opportunistic developments. but again, just like the other two, it comes with, its own challenges. it could be very, sensitive to different macro shocks as we've seen in late 2022.

**Lucian Marinescu:** But I think if we step, back a little bit, maybe 20 years ago, you had this, asset class that was called private assets, real estate infrastructure. Private equity. Private credit was around 200 to \$400 billion. 20 years later, it's somewhere around 11 trillion dollars.

**Lucian Marinescu:** So, has expanded substantially. Given the trend of, convergence between private and public, markets. another point to consider here when defining this asset classes is that, in the broad retail investing space. We tend to lump, the assets into one asset class.

**Lucian Marinescu:** and then from our vantage point at Morningstar and at [00:06:00] PitchBook, we like to carve the private markets and think about the different segments. so we look at venture completely different than private equity. Let's say within private equity. We look at, Buyouts, differently than we would look at the growth equity.

**Lucian Marinescu:** even within credit. We look at structure products, differently from, special, Private credit companies, BDCs, unlisted BDCs. there are nuances within the asset class that have, different attributes. But across the whole asset class, themes are similar such as limitedly, liquidity, higher fees, and less transparency.

**Jennifer Doss:** that's an important point though, because as we start to talk in the industry more about these alternatives or these private markets that. You just mentioned, people shouldn't lump them all together necessarily. it's very similar to. when we talk about things that might be in a menu today, we talk about large caps, right?

**Jennifer Doss:** Not every large cap manager, even though they're large cap managers, doesn't mean they're investing in the exact same thing. It doesn't mean they have the same investment philosophy. an easy [00:07:00] example maybe in the private real estate component would be. What type of real estate are you owning?

**Jennifer Doss:** Is it commercial? Is it residential? there's all different types of real estate that you could own,

**Jennifer Doss:** you mentioned this very briefly about private real estate might be the one that people are. more familiar with in the market, but, is this something that people are using today? and if DC plans are using them today, how are they accessing them?

**Lucian Marinescu:** these. Asset classes have long been used by institutions when managing their pension and endowments. but the defined contribution plans, are just starting to engage, mostly through. Structured vehicles like managed accounts and target date funds or custom target date funds.

**Lucian Marinescu:** private equity is still early days in the DC space since 2020. the DOL guidance has allowed, private equity within diversified portfolios like managed retirement manage accounts, and. Target date funds. in practice the adoption is limited mostly among large plans.

**Lucian Marinescu:** resourced plan that have an investment team that [00:08:00] manages or has experience with investing in private equity, The other way that we've seen access to private equities within a wide label global equity fund. So being a separate sleeve in order to mitigate some of the liquidity needs and valuation needs that investors have.

**Lucian Marinescu:** and then let's say wide label global equity could then, be included in a glide path,

**Josh Charlson:** with private real estate that has been around in DC plans in some of the target date series for longer than.

**Josh Charlson:** some of these more recent, asset classes like, private equity and private credit. there are, some large, asset managers that had been using real estate for their pensions and on the insurance side that had a lot of familiarity with those.

**Josh Charlson:** So those have been available in CIT wrappers. For a pretty good long time. I'd say at least 15 years. so there is some familiarity, with that asset class, more so than some of the other ones.

**Lucian Marinescu:** Even in, in custom, we have, clients on [00:09:00] managed account side and target date funds that we use direct real estate. we've learned how to deal with the liquidity issues, having a separate sleeve in reads. it's common to have an allocation along the glide path

**Lucian Marinescu:** as Josh mentioned, that's the asset class that has more familiarity with, plan sponsors. I have to say in our engagements with plan sponsors, private credit comes up a little bit more often than a private equity. you seen it show up more, access either via CITs or interval funds.

**Lucian Marinescu:** so I think it has benefits especially for participants closer to retirement and providing that retirement income for participants. And I can see a situation where allocators might carve out a non-core portion and substitute some of that with private credit.

**Lucian Marinescu:** So bit more engagement on the private, credit versus private equity side.

**Josh Charlson:** we've been talking to a lot of asset managers, who are bringing products to market or, want to bring them into the retirement space. And we're seeing a little bit of everything. We're seeing private equity, [00:10:00] we're seeing private credit.

**Josh Charlson:** We're seeing some, firms that are providing a combination mixed, base of assets in their products. So I think there's gonna be opportunities in all of these areas.

**Matt Patrick:** for anybody listening that is more unfamiliar with the space, you're just starting to. Evaluated as it relates to your plan. A couple things that both Lucian and Josh hit on were the use in the DB and the foundation space. that's just important historical context because that's a lot of the way that it's being.

**Matt Patrick:** Marketed now is those markets have had access to this and that's an area that DC participants haven't been able to access. Or there hasn't been options out there, and that's an area that they've been missing out on. So I think that's just important context for messaging along those lines.

**Matt Patrick:** and there are those, considerations that come with it too, in terms of. You're going from something that's more trustee directed to participant directed, and what are the appropriate use cases for those? that'll be something you notice through this entire conversation.

**Matt Patrick:** but curious as we pivot to why is it coming up now? Why is this such a invoke topic [00:11:00] on the DC side? have there been any developments over the last few years that have made it easier to incorporate private assets into the DC space?

**Josh Charlson:** there's a couple of trends coming into play at the same time that have led to the recent buzz and acceleration of activity in this area. Lucian alluded to this, there was a couple of DOL letters issued in 2020 and 21, which I'm not a lawyer, I'm not gonna speak, legally to anything, but, they seem to open the door, to.

**Josh Charlson:** Private assets being used within multi-asset vehicles, in retirement plans. that has given encouragement to firms who wanted to get into this area. you have some. Larger market trends, at work.

**Josh Charlson:** Again, Lucian alluded to this, but you have a shrinking of a public equity asset base, fewer companies doing IPOs, more, staying private longer. you have a big boom, [00:12:00] in, non-bank lending leading to greater, growth in. Private credit. so you see these areas really, expanding when public markets are shrinking a little bit.

**Josh Charlson:** just supply demand balance there. firms in the private space looking for new, sources of capital. they have, investors who are looking for exits who haven't been able to do so readily. So they are looking to create new cycles of flows and, Retirement has always been the holy grail, of a lot of these private firms looking for a way to offer their products in that space.

**Josh Charlson:** I mentioned CITs. CIS have been growing, in DC plans for a long time. with less liquid options, those needing to be offered within a CIT wrapper. So greater comfort among plan sponsors in that area. And then, one

more thing is just. Data. this is an area where there's less transparency, than investors are used to.

**Josh Charlson:** but data is improving and so it is something we at Morningstar, along with, PitchBook, are really taking as a big [00:13:00] initiative. Providing greater transparency, bringing private data, making it more accessible, putting analytics around that. And I think that will allow, plan sponsors to get more comfortable as there's more data that they can see on a regular basis.

**Matt Patrick:** could you expand, when we think about data in that space, like what kind of data was not previously available that is more visible now?

**Josh Charlson:** it's growing and it's not necessarily gonna be right there on the Wall Street Journal. for instance, returns of the underlying, say private vehicles, what do their return, streams or IRRs look like over time? Maybe what some of the holdings, are of those, vehicles.

**Lucian Marinescu:** providing risk and return analytics around the vehicles, all those sorts of things that we expect as, just part and parcel of what we're dealing with with public funds hasn't been there. I would add to that, Morningstar has done a lot of work in terms of providing what we think it's a fair value. Of any stock that we cover. And we're trying to leverage that knowledge [00:14:00] and apply it in a private asset space where I know PitchBook research team is not only trying to forecast what the IPO price is of a private.

**Lucian Marinescu:** Company that's trying to go public, but also they're trying to formulate in their opinion, based on comparables and research why they think the fair value of that asset is. So this way it can provide a lot of, visibility into different valuations so investors can easily make a decision of whether, it's worth owning, an asset or not.

**Matt Patrick:** so we've established what are we talking about when we say alternatives or private markets? What are the big areas that are gonna be relevant for DC plan sponsors?

**Matt Patrick:** Then we got some of like, why is it coming up now What do you all see as the. Actual investment case for including a private markets option within a DC plan.

**Lucian Marinescu:** I think there are a few. things to consider. One is if you are thinking, about this topic from someone who wants broad exposure. Diversified



exposure, and in effect, that's what managed accounts and target date funds [00:15:00] are doing, creating a diversified portfolio for investors.

**Lucian Marinescu:** you could argue that the passive market right now, index funds do not capture the entire world. You can even argue that the massive shift, or concentration in the public markets, given the returns that major large growth companies in the US have had over the last 10 years has skewed this dynamic even more.

**Lucian Marinescu:** You could argue that in such a space when building diversified portfolios, private assets, it just expands the opportunity set of investors and representing the world. the other second is that there's a growing belief that. This traditional 60 40 portfolio, will evolve into something that looks more like 50 30, 20, where 20% is carved out, 10% from equity, 10% from fixed income and allocated to private assets.

**Lucian Marinescu:** looking at the overall market, I think we have around, \$11 trillion in private markets relative to 115 trillion in public markets. So the [00:16:00] argument could be made that, a 10% allocation, something around that, Would make sense for investors. the other to consider is diversification and performance.

**Lucian Marinescu:** and there we have a lot of research that shows that there is some persistency, but you have to isolate various segments of the private equity, venture and private credit isolated where, investors have, showed. consistent performance and maybe, it has paid off to take on this illiquidity premium in the asset class, to enhance returns.

**Lucian Marinescu:** but overall, the diversification benefits, enhanced returns and broadening out the opportunity set.

**Jennifer Doss:** And Lucian, you just alluded to this a little bit. I think that's really interesting. Going from a 60 40 portfolio, so 60% equities, 40% fixed income, traditional portfolio to a 50% equities, 30% fixed income, and then 20%, if I heard you right, in terms of, alternative assets, such as the things we're talking about today.

**Jennifer Doss:** have you done any research on what the optimal allocation is? it's really [00:17:00] hard in DC though, right? Because when you talk about, I'm not talking about what might be right for Josh or what might be right for Matt or what might be right for me.



**Jennifer Doss:** You have to make these bigger decisions across portfolios. how do you guys think about that?

**Lucian Marinescu:** first I think, Private markets should be part of a diversified portfolio, such as a professionally managed account or target date fund. So less available on a standalone basis to participants just because in trying to address how much is appropriate for an investor, we might have to rely on some of the tools that we employ.

**Lucian Marinescu:** historically for managing diversified portfolio. So when we did our research, we landed for private equity allocations between five and 10%, depending on where that investor is along their journey to saving for retirement. for private credit, it's somewhere around eight and 13%, a little bit more there just because of the characteristics of the asset class, obviously.

**Lucian Marinescu:** If both will be available in a planned lineup, the allocations would be, somewhere below [00:18:00] those high levels, that I mentioned. But, we feel like between five and 12% makes sense go beyond that and any operational burden outweighs the benefits of having them in a diversified portfolio.

**Matt Patrick:** I want to come back to the valuation topic that came up earlier. So thinking from a plan sponsor's perspective, again, going through, I'm evaluating this. One thing I need to make sure is that I do feel like the investments that I'm picking, the strategies that I'm picking have investments that are fairly valued in there.

**Matt Patrick:** Is there a way for sponsors to do that today or is that something that's still evolving within the space?

**Josh Charlson:** first stepping back a little bit on the. broader due diligence question. I think it's very important, for plan sponsors to be thinking about what their. due diligence process will look like.

**Josh Charlson:** One of the things that those, DOL letters that I mentioned make clear is that, the fiduciary really has to show, that they've taken the appropriate steps to evaluate, a [00:19:00] private asset vehicle and that they have the. expertise to do so, or that they're hiring someone to do so. And obviously that's gonna be a higher bar, with these types of investments.

**Josh Charlson:** and you mentioned valuation, but there's a couple of, let's call them, distinctive or unique characteristics. When we're looking at these,

valuation is one of them. Liquidity is another one. these vehicles don't have the daily liquidity that, at least on their own, that we're used to with other types of investments.

**Josh Charlson:** and the fee structure is gonna be very different from what we're used to. Typically higher, typically more complex. so even putting aside, looking at the investment, proposition and understanding the skill of the managers, these are kind of complex things that have to be, evaluated as you're looking at any, individual manager or fund or even a multi-asset vehicle, that uses private assets.

**Josh Charlson:** On the valuation question, that, is a tricky one. There's not necessarily. A good way to say just, upfront, [00:20:00] yes. I know that there is a, good value proposition here in terms of the valuation of the underlying assets. now that is something that can be developed. Lucian mentioned Morningstar, developing valuation frameworks.

**Josh Charlson:** But typically, you're gonna wanna understand what the valuation process at the firm is using for, Looking at their underlying assets. These are not, valued on a daily basis. you won't really know the true value of something until it gets, sold, or some kind of exit happens.

**Josh Charlson:** but they do use typically their own valuation methodologies as well as some kind of outside auditor. those. Should be made available. Ideally if there's some level of transparency going on, published at some kind of regular, maybe a quarterly basis. So those are things that, one can look to to get some kind of idea, of what level evaluation is there.

**Jennifer Doss:** Josh, let's dig into a few of those. you mentioned things and. Regular due diligence that you would do on any manager, right? In terms of how you manage portfolio, how [00:21:00] you source opportunities, all those things. fees, valuation and liquidity seem to be the three big ones.

**Jennifer Doss:** for these types of strategies. And you've said a couple of things and I don't wanna gloss over them. So when we think about, the fees. It feels like it's a assumption. That's fair to say. The fees are gonna be a little bit higher than, what we see with some other publicly traded.

**Jennifer Doss:** funds or, the funds that we're investing in today, just like a fixed income fund or again, a large cap growth fund or something like that. or certainly a passive investment vehicle, which a lot of people are using now. talk to us about fees.

**Josh Charlson:** it's a very good question. it's one that we're gonna be grappling with as well. you can expect fees to be higher. the question is, are you getting an appropriate. Trade off, for the level of fees that you're paying, we should In general that, a private equity vehicle or private credit vehicle is gonna provide a higher level of returns over the long term [00:22:00] or higher yield than a comparable equity or fixed income offering in the public markets.

**Josh Charlson:** but that's where Getting some information about potential returns, returns history for a vehicle, comes into play so that you can really assess what the fee trade off is going to be. Another possibility is that in a multi-asset vehicle, those higher fees on that one part of the vehicle, that private allocation may still be diminished because of the other.

**Josh Charlson:** publicly traded assets or passive assets. We've seen that in, at least one target date product that is coming to market where most of the portfolio will be in, passively traded investments And there's a private allocation. The overall cost of that vehicle is maybe a little higher than you would pay for, just a purely ETF based.

**Josh Charlson:** Target date vehicle, but it's still significantly cheaper than a lot of actively managed options in the marketplace. So that is a place where you might be getting a pretty good deal. another thing [00:23:00] to pay attention to is incentive fees. a lot of Private vehicles have incentive fees attached to the management, fee on the product.

**Josh Charlson:** that complicates the fee equation, and you really have to take that into consideration. we've seen some asset managers who are offering a choice. You could get a lower management fee with the incentive fee, or you could pay a higher management fee, but no incentive fee. So there's a lot to take into account.

**Josh Charlson:** One is not necessarily better than the other. there's gonna be some choice and analysis that has to be done there.

**Jennifer Doss:** And then liquidity. that could be a scary term. if people think about, what do you mean? I might not be able to, get my money and I. Think there's a couple of times we've referenced in this conversation already. is it gonna be daily value?

**Jennifer Doss:** No. there's no value on a daily basis. is it going to have daily liquidity at the individual strategy level? No. But like Lucian was saying, if you combine these and make these. Part of a, what we would call multi-asset

portfolio. if you make it part of a target day series or you make it part of a larger portfolio, then [00:24:00] you have a manager who is managing those cash flows.

**Jennifer Doss:** I don't think here we're talking about individual participants not being able to get in and out of these things but I do think that there's some liquidity. Conversations in terms of who is gonna manage that day-to-day transaction and make sure that there is the cash flow needed.

**Jennifer Doss:** And then are there any liquidity restrictions at the plan level? Or will we see that like we see with a stable value fund today, Where if you wanna get out at the plan level, it might take you 12 months. In some worst case scenarios, it might take you five years. is that similar to what we're thinking about here?

**Lucian Marinescu:** Yes, I think there will be, restrictions at the plan level. but I would say, from the lessons we learned with direct real estate and stable value, they're manageable. You may see mechanisms like, provisions and withdrawal windows. these are there to protect long-term investors and manage the liquidity risk.

**Lucian Marinescu:** And most of the managers that are coming out with products in this space that we talk to, they will have a [00:25:00] quarterly subscription and redemption window with a 30 day notice. Pretty common. they will have, All of them talk about, 5% quarterly liquidity limit at the plan level.

**Lucian Marinescu:** but I think there are other ways where you can manage withdrawals, with flows from investors, especially young investors, that contribute the plan, and manage the account. we can easily model. these features dynamically. the key is upfront communication between the record keeper, the asset manager and the investment manager of the managed accounts.

**Lucian Marinescu:** so again, if done right, these buffers, don't have to dilute the investment strategy, and they can actually support it, by ensuring stability. during drawdowns. one other point that I would make that colleague of mine made recently is that at the participant level, the fact that they can trade daily, it might be a, a positive instead of a negative.

**Lucian Marinescu:** If we look at, gap returns between what investors, get and the published [00:26:00] returns of mutual funds that they invest in, we have a lot of research that shows that, Investors have underperformed those stated returns given, their move in and out of the markets. paradoxically, illiquidity in

private markets can be a positive, and enhanced returns over the long term at the participant level.

**Lucian Marinescu:** But again, I agree with you that, this is something that both record keepers and asset managers are trying to figure out and how to provide that, liquidity on an ongoing basis.

**Josh Charlson:** just to emphasize the point that in a multi-asset vehicle, let's say a target date. Series where the allocation to the private investments might be, let's just say for the sake of argument, 10 to 15%. There's still going to be a significant weight in that portfolio of very liquid assets.

**Josh Charlson:** whether it's large cap core equity or core bond exposure that is, in a, let's say, worst case scenario type of situation, where in a 2008 or something like that, [00:27:00] there's gonna be plenty of liquidity in those portfolios. For individual participants.

**Josh Charlson:** no one ever wants to say, never, but it seems very unlikely, that, we would run into those sorts of liquidity issues if the allocation is kept to a reasonable level and there's a lot of other liquid assets in those portfolios.

**Matt Patrick:** Lucian, when you were talking about the 5% quarterly. Limit that you've seen a lot of strategies that are out there. Is that 5% at the plan level? Is it at the participant level? Is it at the fund level? where does that typically exist and I how should someone be thinking about that as it relates to putting it in their plan?

**Lucian Marinescu:** typically is at the plan level. So in aggregate, the plan, can redeem 5%, of the NAV, quarterly. there are mechanisms let's say in a CIT structure, where the. Trustee of the CIT could make requests for additional liquidity, that could be provided by the asset manager.

**Lucian Marinescu:** but it's at the plan level. [00:28:00] And, the number that we've heard from all these asset managers, it's 5% at the plan level.

**Matt Patrick:** as it exists now, Is there any mechanism with these types of strategies to get fully out, or are you just taking 5% slices forever if you wanted to try and exit the position?

**Lucian Marinescu:** from the. Due diligence meetings that we had. I think there are mechanisms where you can get out that's the number one question that we

have as a, managed account provider. What happens when a plan decides to remove managed accounts.

**Lucian Marinescu:** And we've been assured by asset managers that, will not be a problem, but probably will have to stagger that, on a quarterly basis. it is still a challenge to be solved and truly understand how that will be provided.

**Matt Patrick:** Which I, I think, is just an important thing to highlight as people are starting to consider it. And then it seems like the other solve that we see come up to is, in a CIT vehicle, for example, like building in some sort of. Cash buffer within the strategy itself. the consideration that would come with that is how much is in there, and does that [00:29:00] water it down too much where you're not getting the benefit of the actual strategy you're buying because it's holding so much cash?

**Matt Patrick:** how do you all think about strategies that are approaching it that way, like trying to build in some sort of meaningful liquidity buffer?

**Josh Charlson:** from our perspective, if we're talking about for the individual strategy, it seems to make sense. They have to build in some kind of liquidity buffer there. it seems like a form of, insurance, if you will. There will be a cash drag against the returns of the portfolio.

**Josh Charlson:** So you wouldn't want it to be too large. we've seen in cases, where the asset managers are doing that. Anywhere from a couple percent to 5% of the portfolio. You're just gonna have to take that as a haircut against the potential returns of the portfolio. There's gonna be trade-offs with everything, when we're bringing private assets into, the DC space.

**Josh Charlson:** you just have to choose which, trade-off you're willing to accept.

**Jennifer Doss:** through this conversation it's pretty clear that we've hit on a couple of the big ones, but there's some additional. [00:30:00] Considerations or factors that plan sponsors may wanna think through, when evaluating these private investments? And, there's good reason for that,

**Jennifer Doss:** Because we talked about at the very beginning how they could add diversification benefits and value. And, half of, US companies are private today versus public. So there's certainly a lot of benefits, but it does come with some additional considerations, potentially higher fees, liquidity considerations.



**Jennifer Doss:** None of it, insurmountable, but additional, I think, so just to up, how do you think plan sponsors need to think about due diligence on these private market investments differently? or is it what I just said? Is it pretty much the same, but there's a couple additional tweaks.

**Josh Charlson:** I think you do have to think about it differently. I don't think you're wrong about that. it's right there in the DOL letter, that explicitly calls out making sure you have appropriate expertises of fiduciary to do the due diligence.

**Josh Charlson:** They are, a different beast. And even when they are, getting put within a multi-asset, framework, you want [00:31:00] to be able to check all the boxes, on some of these more complicated aspects that we've talked about. in terms of what are the liquidity provisions, what is the process for doing valuation, of the underlying holdings.

**Josh Charlson:** How often are those going to be published? what is the fee structure and is it the right kind of fee structure for this product? for, our plan participant demographics, in terms of the fees we want to be paying. I would just say overall transparency. that's something we're gonna be looking for at Morningstar.

**Josh Charlson:** We always prioritize transparency, getting as much data out there as possible. How open is the company to providing, as much data, as you. Feel is necessary to see. it's an industry that has been built off its, difference from public equities and public markets and being able to have that level of,

**Josh Charlson:** lack of transparency. that's part of, what we call the illiquidity premium. The fact that these [00:32:00] assets don't, move as much, allows 'em to have smoother volatility. so it's an advantage. But as these companies move into public markets, they're gonna have to shift a little bit in terms of how willing they are to disclose some of this data.

**Josh Charlson:** I think we should be looking for that as well.

**Lucian Marinescu:** I would just say that from my perspective, I think, private markets are becoming more mainstream. But investors need to understand the trade-offs and be realistic about the net returns they can get, relative to the fees that might be initially higher and liquidity costs that they have.

**Josh Charlson:** I think it really makes sense, for multi-asset vehicles to be, the structure for private assets to be entering the retirement space. that way they can



be cushioned around some of these more liquid investments. you can get daily valuations on the target date vehicle or the, asset allocation vehicle, whatever it may.

**Josh Charlson:** So I think it's an easier transition that way.

**Matt Patrick:** I think that served as a great summary [00:33:00] of the takeaways for plan sponsors as it relates to these types of investments. I'm sure it's something that. If, someone hasn't heard about it, it's gonna come up just 'cause there is so much conversation going on in the industry about it.

**Matt Patrick:** But I think just a good recap in terms of went through the investment case. There's a lot of compelling upside to including private markets in some capacity within an asset allocation strategy, but. Meaningful considerations as it stands right now because it is a developing space that doesn't have a lot of track record in the DC market specifically.

**Matt Patrick:** And I think a meaningful considerations when it comes to fees and liquidity, particularly when you think about, participants interacting with these types of vehicles. Appreciate you running through all that. to provide some background for those listening. Now we're gonna transition to a more, personal topic to close out, which is our question that we ask all of our guests when they come on.

**Matt Patrick:** So Lucian starting with you. Then we'll jump to Josh. We'd love to know what does retirement look like for you?

**Lucian Marinescu:** Since I spend most of my time thinking about, retirement for other investors. I've come to realize that, there's not a single [00:34:00] point when retirement will happen for me, but, it's probably gonna be a gradual transition to, more time with family travel.

**Lucian Marinescu:** hopefully get back to some of my passion for golf and not just caddy for my son. I can say I'm looking forward to.

**Josh Charlson:** for me, and I am not. Really thinking that much about retirement. For myself right now, I'm happy at work, I'm challenged at work and I wanna keep that going for as long as I can. But when I do think about retirement and, from reading quite a bit about retirement, I think about engagement and being engaged, staying engaged.

**Josh Charlson:** You read so much that, one of the biggest, Markers of health and happiness in older age is social networks and being engaged and, I have a lot of things that I hope to be able to keep doing, like hiking and playing sports. I'm on the board of my local library. so I think all those sorts of things that you can find in your community to stay engaged, that's what I wanna be doing.

**Jennifer Doss:** Those sound like lovely, retirements whenever they may come, [00:35:00] Josh, they don't have to be tomorrow. Heard you loud and clear, but, thank you guys. As Matt said, you took us through a journey here and we certainly appreciate it. And, we might talk about this again in the future, it feels like once we've, figured out a couple of these things and we've got new products coming out

**Jennifer Doss:** There's more things to talk about in this area, so certainly appreciate you helping us start the conversation. thank you to our listeners for, tuning in. Again, if you do, like our show, please don't forget to like and subscribe. You can get our podcast wherever you do, get your podcast today.

**Jennifer Doss:** and until next time, thank you.

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