



TRANSCRIPT

Re: SIFMA Private Markets Roundtable Series Part 2

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<https://events.sifma.org/private-markets-liquidity-roundtable>

Kenneth E. Bentsen Jr.:

Good morning and thank you for joining us today. I'm Ken Bentsen, SIFMA's president and CEO. I want to start by thanking our roundtable participants for contributing their expertise today and our audience for taking the time to tune into this important discussion.

Today we are hosting our second session in a series focused on issues related to private market assets and their potential as retirement savings investments. These sessions are a part of an education effort we have undertaken as a result of the executive order issued by the President last August to democratize access to alternative assets for 401k participants. The Department of Labor was directed to issue guidance within 180 days, which will soon be coming up.

While certainly not a new asset class, private markets assets, including private equity shares in non-public companies and private credit comprise a significant and growing role in financing economic growth, innovation and job creation. Institutional investors, including pension funds, foundations, and endowments, as well as high net worth investors have long had access to such investment assets. And now policymakers are considering how individual investors could gain exposure through qualified and non-qualified retirement and investment accounts.

Today's session builds upon our September roundtable where industry experts explored foundational valuation practices currently applied in private credit and private equity markets and how that might work with individual retirement plans. Today we turn to two closely related topics, liquidity and transparency. These issues are crucial to understanding how private market assets could be incorporated into retirement savings offerings.

Helping Americans build savings for retirement is among the most important functions of the capital markets and SIFMA strongly supports of policy efforts aimed at increasing retirement security for all. This

includes considering how exposure to private markets assets can be responsibly made available to individual savers if risks are clearly understood, managed, and communicated.

It is also critical to be sure that plan sponsors are an active part of the discussion because of the important role they play in helping individuals save for retirement. Department of Labor has been active in supporting plan sponsors and their role in the individual retirement ecosystem. The department's recent amicus brief filings can give plan sponsors more confidence in considering and expanding opportunities for their participants.

With that, it is a privilege to begin this discussion with Deputy Secretary of Labor, Keith E. Sonderling. Following his remarks, we will move to two panels that will examine private market liquidity dynamics and current and emerging approaches to transparency in private markets.

Keith E. Sonderling is the United States Deputy Secretary of Labor confirmed by the US Senate in March of 2025. In this role, he serves as the Department of Labor's Chief Operating Officer overseeing strategic planning, budget and operations. Before his current appointment, Sonderling served as commissioner and vice chair of the US Equal Employment Opportunity Commission from 2020 to 2024, where he focused on the intersection of workplace, technology and civil rights law.

Earlier in his career, he held leadership roles in the Department of Labor's Wage and Hour division, including acting and deputy administrator. Prior to public service, Sonderling practiced labor and employment law in Florida, and also taught employment and discrimination as a lecturer at George Washington University Law School. He holds a BS Magna Cum Laude from the University of Florida and a JD Magna Cum Laude from Nova Southeastern University.

I'd also like to note that we are honored to have Department of Labor Assistant Secretary Daniel Aronowitz, who's the head of the Employee Benefits Security Administration with us here as well. So with that, let me turn it to Deputy Secretary Sonderling for some opening remarks, and then with time, we'll have some back and forth.

Keith E. Sonderling:

Well, thank you so much. And first, thanks to SIFMA for hosting this. It's a great way to start off the year. I think we were supposed to be doing this in November, but with the shutdown had to get rescheduled, it's great. We can start fresh and have a discussion.

As you heard from my background, I was a traditional laborer and employment lawyer in private practice. And then my prior government experience, both Department of Labor at the EEOC, I intentionally and purposefully managed to avoid ERISA my entire legal career. And here I am in this role, knee-deep into it.

But now that I am, like many of you in this room, once you start understanding the complexities and really the importance of this law that the Department of Labor enforces that regulates this community, I understand the significant and important role that we play to make sure that ultimately America's workers and retirees are protected and that we can help them really become wealthy. And that's really a big purpose of President Trump's second administration.

For EBSA is to protect the American worker, the American retiree, and make sure that when they do work hard their entire career and retire through retirement, that those benefits that are either promised to them through their employer or that they voluntarily contribute themselves are there for them, are invested properly so they can really enjoy retirement and live prosperously. And that's really our core focus at Department of Labor and in EBSA is to protect the American worker and the retiree.

Before we get into some of the specifics, I do want to just take a step back and talk about my view of these enforcement agencies, whether it's EBSA, Wage and Hour, OSHA, Mine Health Safety at the Department of Labor, on how it's changing under President Trump's leadership in the second Trump administration, very similar to his first administration.

And the most important thing we can do is lead with compliance assistance, lead with giving the information that you all need to ensure that your workers are protected and not have it done through enforcement, not have it done through litigation. And that's what's really important to us, putting out as much information as we can, working with the regulated community to learn what those tough questions are, where you're receiving a lot of lawsuits because of questions and the guidance or gaps in the guidance.

And that's really our focus. And if we can do that, if we can put all that information out there, then good faith employers, many in this room and listening on webinars will take that information and they'll do everything they can to ensure that their workers are protected.

And that's what we did in the first Trump administration. We had record-breaking amount of compliance assistance. But that doesn't mean we're going to be lax on enforcement. We believe that they go hand in hand. And the more compliance assistance you put out there, the more people comply, then we can use our very, very limited resources to go after the bad actors and really focus on there. And not just focus on whether it's larger brand name employers to get press. We want to focus on where the violations are, where the issues are, where those systemic needs are for guidance and correct that. So that's the first point.

And not just in EBSA, but in all the enforcement agencies, I relaunched a program about getting that guidance out through opinion letters. And in the EBSA context, it's through administrative orders and ... excuse me, advisory opinions and interpretive bulletins. And those are back. We have a whole new webpage related to those. We're trying to put out one a month, right, Dan?

Daniel Aronowitz:

Yes.

Keith E. Sonderling:

Better do it really to give that guidance out there. And we've been able to put out some pretty big ones so far, whether it's about DEI practices, whether it's about mutual lawn care benefit programs or deferred bonuses. A lot of our qualified default investment alternatives have gone out already, and those are a lot of longstanding questions, but we don't know what ... Well, we do know what the issues are, but very specific issues that are coming, we need to rely on you to submit these opinion letters, and that's the only way to be able to do it.

So working with, whether it's SIFMA or other organizations, get us that information because we'll be able to respond to them and provide guidance so we can move on to broader issues.

Our other big launch in this whole conversation related to helping and giving compliance is our amicus brief program. When the federal government files an amicus brief in a case, it carries significant weight because we are the experts, and courts, especially in very complicated topics like ERISA, welcome that generally.

And look, amicus briefs historically from the Department of Labor have been very one-sided across the agencies. Very rarely has the department or labor agencies filed on behalf of employers or plan sponsors in this case.

And look, we're the federal government. We need to be neutral. We need to be going into cases where the facts or the law, excuse me, where the law is in question and we could provide our expertise. And there's just been a slant on that. So we're looking at these neutrally. We want to enter into as many cases we can that have true questions of the law, not are we for the plaintiff or the defendant as the entry point of how we're going to file, where is that need? Where is our expertise needed?

And as you all know, we've already filed some historic amicus briefs in this administration under President Trump's leadership, Hutchins verse HP, the forfeiture case on behalf of the employer in that case. That really, I think, has set the tone to how this administration is going to tackle looking at amicus briefs.

So they're public, you've seen them, but again, you all are involved in the litigations. You all live in this world. You know where you could use our expertise. And that's where we want to have those conversations. And when necessary, that's when we will put the weight of the federal government to defend our equities in ERISA.

And finally on this self-compliance portion, because if I don't get this out of the way now, I know what you want to talk about, but I got to tell you the important parts for my priorities is our self-audit programs. And

this is something going in this same conversation about how can we free up federal resources to truly go after those who don't have part of these trade groups, don't have sophisticated legal counsels and are intentionally harming their workers and their retired workers by not complying with the laws. And that's where our resources need to be. But these are very, very complicated laws in all federal labor laws and benefits laws.

So we've relaunched our self-audit programs across the Department of Labor, whether it's in OSHA, Wage and Hour, Mine Health Safety, but really particular to the ERISA space, our two programs, which I'm promoting is our voluntary fiduciary correction program that we've relaunched. We're doing a lot of publicity on that. We want people to be able to get into that program, come to us, work on correcting those. And then our delinquent filer voluntary compliance program, not the easiest to say.

But both these programs are open. Just like we want AOs, just like we want to file amicus briefs, we want you to enter in these programs. You're already doing your own audits, you're already seeing problems. Instead of hiding and hoping that nobody finds it, come work with us and let's resolve those issues so that liability can be off your books, your employees or retirees can get the benefits they deserve without litigation, without federal law enforcement, because we have a lot of other areas to be using that.

So that's just from my perspective, what I demand from all of our enforcement agencies. And I think in this context, working with SIFMA and others, we really can move the needle on compliance assistance and move away by regulation, by enforcement and litigation, which I know has plagued this industry for a long time.

Kenneth E. Bentsen Jr.:

Right. Thank you, Secretary Sonderling. And thank you for that overview of sort of-

Keith E. Sonderling:

Oh, and I forgot to mention something. Daniel Aronowitz, our Assistant Secretary for EBSA was confirmed by the Senate. I'm very, very excited for his leadership. I know many of you know him. And now that he's here, he's in the seat, he has a license from me and the President to be innovative to make sure that retirees are protected.

So Dan, why don't you just introduce yourself and give a quick background about your experience in this industry?

Daniel Aronowitz:

Well, thank you, Mr. Deputy Secretary. Thanks to the Deputy Secretary, I have the best job in the federal government, and I consider my job to make ERISA great again. And the way we're doing that, and you've

seen what we've done even before I got here, what Deputy Secretary did, we want to restore ERISA as a law process, and we want to push back on regulation by litigation. And I believe that I'm well-suited to do that because I come to this job as the first business person that ever has taken the EBSA job.

I ran a fiduciary insurance company for the union movement. I was a lawyer before that on directors and officers and fiduciary liability. I did a turnaround in my career. I did a startup in which I started a fiduciary liability insurance company and I sold it to private equity. And I believe all that experience puts me on the front lines in which I saw hundreds, if not thousands of Department of Labor investigations. I saw what was good, I saw what was bad and we're already making it better in which we focus on breaches of loyalty and we get out of second guessing prudence violations of fiduciaries.

And I also saw the litigation, and I feel like I'm well-equipped to deal with that. And you've seen some of our amicus briefs and you will see more, and I'm thrilled to have this job and appreciate the opportunity.

Kenneth E. Bentsen Jr.:

Right, right.

So maybe digging down and the Deputy Secretary, you got us in the opening part of your remarks talking about the role of the department and the administration and really wanting to drive increased benefits from retirement and retirement assets for American workers and retirees.

Maybe give us a little more overview of what are your priorities and then I guess essentially priorities in the retirement space for the department?

Keith E. Sonderling:

Yeah. I mean, our first and foremost priority is ensuring that the President's executive order on alternative assets occurs, happens and is done in a way that is going to last for a long time. And as the President wants and has stated in his executive order to open up the private markets to the 401k world, and that is on the Department of Labor under ERISA to do that.

And we see significant benefits in this and the ability to really reform the retirement industry broadly under longstanding ERISA principles. And I think what's so exciting about this executive order is that it really gives the Department of Labor the license not to create anything new, to go back to the basics of ERISA and look broadly of all various types of possible investments allowed in 401ks and just be neutral and say, "Here's what the principles are. Here is what we are going to look at when plan sponsors are making those determinations about, above my head, liquidity and transparency, about fees, all of that."

But I think what we need just to take a step back when it comes in all to this, none of this is novel. All of this is going to be based on longstanding principles that plan sponsors have for new words for me like

prudence related to how they're going to do that. But they're not going to do that without people from the Department of Labor, which I publicly announced that we will be doing and a rule that could last.

And that's what's so important and that's why our number one focus right now at EBSA with all of everything we have to do, and we do a lot in the healthcare space, PBM reform, as a lot of you know, is to ensuring that plan sponsors, that the entire regulated communities understands what analysis has to be done when looking at any asset into a 401k. Whether it's public, whether it's private, alternative, whatever you want to call it, we need to give those baseline principles.

And it's very complicated because of the state of the industry. And that's where I was talking about earlier, is that when you have an industry that is really living in fear based on every decision that they have to make, because a lawyer or a judge is going to potentially second guess that, we have to eliminate that.

And through the President's executive order, it allows us to do that on each of these various topics that have caused plan sponsors to not want to make investments, whether public, private, or an investment we don't even know about yet. And we feel like we can solve that through this executive order. But the only way to do that is to work together because from our perspective at the Department of Labor, we understand ERISA, we understand what the rules of the road are going to be, and we're going to really hammer that and make it as clear as possible.

But all of you in this room know the practical impacts that's going to happen. You know how these products need to be built to satisfy not only ERISA, but ultimately the plan sponsors and this whole community that's going to be responsible for purchasing and implementing it and ultimately proving to their employees that this is in their best interest, that this is going to be the way to create wealth in retirement through your 401.

And that's what we really want to do. We want to remain neutral. We want to double down on the ERISA principles for all of these, but actually answer those questions and not just be general, as I've been talking about now, getting very specific into each category that gives plan sponsors heartburn, that gives them pause, that they automatically say no because of the fears when the answer may be easily yes based upon laws from the 1970s.

So that's what we're really focused on in a broad context, but I understand it's extremely complicated. And I know each of these categories, whether it's liquidity, transparency, disclosures, et cetera, require a new lens in 2026 when you're asking plan sponsors 'cause of the President's executive order to help to diversify.

And that's why I'm here today. That's why we've been working together, and that's where I need and the department needs help from all of you as experts knowing where those bounds are and knowing what that guidance needs to be to be able to make this work.

Kenneth E. Bentsen Jr.:

So maybe as a follow-up to that, and I'm going to come back to the litigation and the issue, 'cause that's very important that you raised, but today we're doing this session on liquidity and transparency. We did one on valuation earlier, well, last year now.

You kind of touched on this, and then we've talked about this before. What more could the industry, could the public, other commentators, as you go forward with the rulemaking, what more is the department looking for? What could be helpful to the department in terms of filling the file, if you will, the comment file, helping the department, as you were noting just a second ago, in developing a rule that can stand the test of time?

Keith E. Sonderling:

The most important part is all of your participation when the rule does come out in the public comment period. This is your chance to tell us what we got right in our analysis, what we got wrong, what will work practically from a business perspective, what may work. Obviously, nobody gets everything they want, and our job is just to review all the comments and respond to all the comments. So even if they're critical of what we're trying to do, whether it's from industry advocates or people who don't think this is the best idea, we have to address those.

So for each of these various topics, all that data and information is out there. I think the difference now between the public markets and the private markets is in their own world, public, whether it's liquidity, whether it's the valuation, it's public. And in the private markets who now want to and have been willing to enter into this world for some time now and already do exist in this world, of course, in certain pension markets, need to tell us exactly differences between the public, the way we look at the public liquid, whether it's transparency, liquidity, versus in private where it's not readily available. And how do you now discern that into a level that will meet our requirements ultimately for the plan sponsors and the American worker that is allowed to see that, needs to see that under the law. And of course, having it being their money, some of these liquidity issues that are just different.

And you're the experts and you all know. And as these products are being built and as these products are being marketed, we need to know all that information and we need to understand how you're going to address these concerns that the executive order broadly discusses, but they're so individual to different asset class. And I understand that private credit, liquidity, valuation, whatever the transparency topic is going to be different than private equity that might be different than real estate investments that may be different than cryptocurrency, whatever the broad definition of an alternative asset is.

So I think for each of those products that you're considering offering to plan sponsors and for the plan sponsors themselves, here's the questions that we are going to ask those who are selling us these

products. For those developing these products, here's the questions we are struggling with as we build a product that's trying to be ERISA compliant.

And all that I understand is very proprietary, it's very private, but to enter in this world. And when you're dealing with individual's 401ks, which is they're relying on to live in retirement from all their hard work, that's over. That needs to be transparent. It needs to be there. Ultimately, the American worker needs to understand at a very basic level that this money, if they need it, of course, in the context of all the 401k existing restrictions will be available, is properly being invested through the much more complicated analysis for the plan sponsors too. So addressing all of those.

And then that also plays into addressing the ultimate litigation risks, which is completely frozen in the private markets. And knowing where some of these lawsuits have been, knowing what some of the creative ideas might be for new lawsuits moving forward, as we've seen publicly, just based upon the executive orders. I read all the papers and the trade publications too, and there's already threats about what we may or may not be doing.

That all needs to be addressed on the front end. And that's why we're going ... I want to say we're going slow because there's no slowness in the Trump administration. We're moving. But we want to do it the right way. And that's why we've been having ... We've had an open door policy. We've met with many of you in this room. And we want to have that because we want to do it right.

Because ultimately we want to be able to step back and let you all do your jobs, with the plan sponsors do their jobs saying, "Here's the parameters, here's where the safe harbors are, here's where examples are, here's what's going to work, here's where we're going to potentially cross the line," whether it's on fees, whether it's on disclosures, there's just so many different topics and so many different ways to go. That's our ultimate goal, to have a rule that the plan sponsors understand and those building and projects can understand, building them in this framework so we can work and Americans can become wealthier.

Kenneth E. Bentsen Jr.:

So maybe in the few minutes we have left, you mentioned a couple of things, litigation, fear, plan sponsors issues, the amicus program and as I noted the industry really welcomed it. And we don't represent the plan sponsors, but we engage with them a lot and we consider them partners. But the amicus, the brief that you all filed, very important. Obviously, as you pointed, carries the weight of the government.

Two questions here. One is, are there other areas of litigation involving plan sponsors where the department is involved or you think you're going to get involved? And then beyond that, which may be perhaps somewhat beyond the remit, maybe within the remit of the labor department, maybe beyond,

maybe up to Congress, what are you all thinking in terms of litigation reform with respect to plan sponsors?

Keith E. Sonderling:

Well, litigation, that is outside of our ... I'll take the answer saying you can have your conversations with Congress on that. But it goes back to the same point I've been making. There is a litigation reform at the Department of Labor and all the federal agencies by addressing those issues and understanding where there are ... If there's litigation, something is wrong, something's being accused wrong, or it's a lack of clarity in the guidance. And that's what really what we're doing throughout all of our enforcement agencies at the Department of Labor. And I don't mean to be sound repetitive, but this is ... You all know this. You've tracked this every day, you're living it, you're defending it, you're dealing with it, and that's where we want to get involved is to slow down that litigation based upon ...

I've seen it at Department of Labor across the board based on a paragraph and an enforcement handbook from the 1960s. Suddenly there's a wave of litigation in 2022 about that. And how do we keep up with modern times by continually update all of our regulatory and sub-regulatory guidance? And that's where I'm excited to be able to hear from you, work together, continue our open door policy and not ever surprise anyone on this room or in this call, whether you're representing plaintiffs or defendants in any of these cases from the Department of Labor making a policy in the dark and not being transparent about it.

And that's why going back to the executive order, we're doing this in the most historic, transparent way we could ever possibly be doing by having these discussions in advance, by committing to doing rulemaking where everyone can have their comments in. That's your chance. If you miss that window, it's over. And that's the approach I want to have when it comes to this because that's how we're going to be able to ultimately provide the best options for the American retiree.

Kenneth E. Bentsen Jr.:

Well, Deputy Secretary Sonderling, thank you very much for first for those comments, but also for being with us today. And also, I have to thank you for your open door policy and hearing us out. We can't ask for more than that. So thank you for that. Again, very great to have Assistant Secretary Aronowitz with us as well. Look forward to working with you now that you've been confirmed.

And with that, we're going to go to our first session, which is examining private market liquidity. And I'm going to turn things over to the moderator, Natasha Greiner, former Director of Investment Management at Securities and Exchange Commission, and now as of yesterday at Wilmer Hale as Chair of the firm's Investment Management Practice.

Natasha Vij Greiner:

Thank you so much. And thank you, Ken, and thank you Deputy Sonderling for your willingness to participate, but also conduct this second session of two on a very timely topic. And as the Department of Labor and the SEC are considering potential reforms in this area to promote innovation in this space and allow retail investors access to private markets in various different contexts and outside of the retirement context on the SE side, but also in the retirement context based on the executive order, I think that this discussion is so timely.

We're focusing today on today's initial session on liquidity. And when discussing private markets, equity along with valuation, which was a topic from the prior session, is often one of the top concerns raised, and I think rightly so. Private markets are by definition less liquid than publicly traded securities. And however, for long-term investors with long-term time horizons, such as retirement savers, individuals that want to save for college, these characteristics can also be a feature rather than a flaw.

These investors are well-positioned to benefit from the illiquidity premium that private investments have historically offered in exchange for committing capital over longer periods.

It's important to recognize that the private markets are not monolithic. Liquidity characteristics vary across asset classes. For example, investment grade private credit generally offers meaningfully greater liquidity than direct investments in real estate or operating businesses. Understanding these distinctions is critical when evaluating [inaudible 00:30:12] assets can fit within diversified portfolios.

For retail investors, in particular, registered funds and other diversified vehicles play an important role. These structures can provide access to private markets while maintaining appropriate levels of liquidity at a fund level, even during periods of market stress.

This highlights an essential distinction. Liquidity at a fund level is not the same as liquidity as the underlying holding. Solicited closing funds, for example, may hold less liquid assets, yet their shares trade really on secondary markets providing investors with an avenue for liquidity.

Today, there is a wide range of structures designed to balance access to private assets with liquidity needs, including registered closing funds, interval funds, tender offer funds, and evergreen private funds. Many of these structures thoughtfully combine less liquid assets or investments with more liquid sleeves to support ongoing operations, subscriptions, and redemptions.

In the context of retirement plans, [inaudible 00:31:14] considerations are especially important. Funds that include private investments may be able to accept ongoing contributions and meet redemption needs as participants rebalance or take distributions. And while traditional private equity was not built with these requirements in mind, private investment strategies can be and increasingly are structured and managed to meet them.

I want to thank again SIFMA, but I also want to thank all the participants today. We're not going to individually introduce ourselves, but as you speak, maybe you can just give a little context and also want to ... For those viewing, everybody's bio is listed on the SIFMA webpage to the extent that you want to get more information on individual backgrounds, but I think we should just kick it off.

I think especially with the context with Deputy Secretary's opening remarks, I think it's important to think about the current and legal regulatory frameworks.

PART 1 OF 5 ENDS [00:32:04]

Natasha Vij Greiner:

I think it's important to think about the current and legal regulatory frameworks, understanding there may be or is anticipated proposals or proposed rulemaking from Department of Labor. I think the SEC is also closely monitoring this space, as they were particularly active earlier last year and removing prior staff guidance from the Department of Investment Management in order to allow particularly close-end funds to invest higher percentage into private investments. They're looking at other type of fund vehicles also to consider what percentage of participation in private markets other registered funds could consider investing in.

So with all that, I think there is already a framework in place. I know the SEC has talked a lot about that. In fact, they have an ADI that they published last week telling the industry or reminding the industry of the regulatory parameters, and particularly fiduciary duty, similar to prudence, that applies to the advisor, but also their liquidity evaluation, conflict of interest, fees, issues. There's already a framework in place. I bet it might be helpful, just especially after hearing from the deputy secretary of the Department of Labor. Brad, if you could give us a little particular background on what these frameworks are [inaudible 00:33:25] on the ERISA space for advisors and funds, especially as it relates to this topic.

Bradford Campbell:

Absolutely, Natasha. Thank you. Excuse me. And you asked to briefly explain our background. I had the privilege of having Assistant Secretary Aronowitz's job in the Bush administration. So I've spent my legal career working on questions of ERISA fiduciary duty, looking at issues like what are appropriate plan investments? How do plan fiduciaries prudently select and monitor those investments?

And in that regard, I think Deputy Secretary Sonderling said very eloquently that these issues aren't new. This is a question of applying principles that date back to ERISA's founding, which is the prudential process, the thorough, prudent, well-documented process by which fiduciaries take into account all the relevant factors. And under those tests, there have been investments in non-public assets since the inception of ERISA. It's been a common part. It's widely used in defined benefit plans.

But as the deputy secretary also said, there are new additional issues that need to be evaluated in the context of defined contribution plans where there are participants with individual accounts who present some slightly different aspects of those same issues. And that's the kind of information that we're going to get additional guidance, as the deputy secretary said, in the near future.

But also, we recently, recently as in the last five years ago, got additional guidance from the Labor Department on how to evaluate specifically private markets. And in that, the department provided an information letter that laid out elements of the process that need to be taken into account, things like the returns net of all the different types of fees and understanding all those fees that would be associated with a private market investment. And they were looking at it not in the context of how do individual participants invest in private markets directly. That wasn't the focus of the guidance, and we doubt that it's going to be the focus of the new guidance. But rather, how do 401k plans, for example, other defined contribution plans get access to investment funds, professionally managed investment funds that then also have some allocation?

So for example, in the 2020 guidance, the Labor Department specifically addressed the notion of an investment fund that would include, say, anywhere from five to 15% allocation to private markets in connection with that investment fund. It's worth noting they didn't provide a specific threshold in that nature. They alluded to some existing SEC regulations that sort of fit into that framework. But again, I'll just sort of say when we look at this, the Labor Department has issued plans in the past. There are well established principles.

And the last point to litigation, we've recently had litigation specifically about DC plans investing in private markets, in private equity and in hedge funds. And recently, the Ninth Circuit Court of Appeals reaffirmed that yes, these are appropriate investments for ERISA plans, for defined contribution plans, provided that prudential process is followed and fiduciaries get the information they need to understand the investments, to consider issues like what disclosures are appropriate for participants, issues like what is the appropriate liquidity, so that as participants move in and out of accounts, there's the necessary liquidity to make those movements, and that as plans as a whole may move in and out [inaudible 00:37:05] there's a necessary liquidity to facilitate that.

So those are some of the differences between defined contribution and defined benefit. And those are some of the nuance and detail that I think we're going to see more information coming from the Labor Department.

Natasha Vij Greiner:

Do you think that the current regulatory framework provides sufficient safeguards to reasonably ensure that necessary liquidity for investors and their ability to access private markets through retirement plans there?

Bradford Campbell:

Oh, absolutely. I think there is clear regulatory guidance out there. There are clear principles that can be applied. The Labor Department specifically referenced in its 2020 guidance using the appropriate standards for transparency, for auditing, for valuation, et cetera. So there is an established framework for that.

At the same time, we are looking at expanding the role of, potentially, of expanding the role of private markets in this area. And as Deputy Sonderling said, what was appropriate in the '70s and '80s and even five years ago needs to be updated to address gaps, to address ambiguities, to provide practical guidance, particularly with the nuances of different asset classes. An ERISA fiduciary doesn't walk up to a plan and evaluate every investment exactly the same. Each investment has certain inherent characteristics that are relevant to that analysis. So I think we'll be seeing from the Labor Department more guidance about specific asset classes and some additional questions to be answered.

And I would just say that's consistent with the department's guidance over history. As target date funds emerged 15 years ago and became a very significant player in 401k plans, the Labor Department put out guidance saying, "Here are the characteristics of target date funds that fiduciaries need to understand." And I think we're seeing a similar process here.

Natasha Vij Greiner:

I think that's a great segue to the next question. And I think Deputy [inaudible 00:39:02] how one would define alternative investments is actually I think a critical point too, because it's ever-changing as time moves on. Recognizing that there are several distinct access classes that fall under the umbrella of what private market assets are, are there common liquidity characteristics that private market assets generally share compared to public market assets? And Sara, I wanted to get your thoughts on that.

Sara Shean:

Sure. Sara Shean from PGIM. PGIM has been managing daily valued private products in the DC space for 20 years. So based on that experience, what we've learned about liquidity over that time and the characteristics versus publics, I would say we've already discussed that whether it's private real estate, private credit, infrastructure, private equity, there's a commonality in those asset classes that there is some level of illiquidity premium that is benefiting investors and no pensions have benefited from that illiquidity premium for a long time.

As we think about each of these asset classes, just as with public markets, each asset class plays its own role within the context of a multi-asset portfolio. So we think of in the public space, high yield bonds as

different than public equity in the S&P 500. Same with private assets. They should all be looked at distinctly on the merits of what they bring to portfolio.

Some of these assets are in the portfolio to enhance returns. Some of these private assets are within a portfolio to provide downside protection. So they each have a different role to play.

And I would say maybe one last comment on a comparison to public markets. Similar to public markets, if we're looking at private market strategies, the size and scale of these strategies can often give an indication of the liquidity that they could provide. So what I mean is a \$50 million private market fund will inherently provide less liquidity than a \$5 billion private market fund. So it's important as we think about the private market structures coming to the market, the look through to the private assets underneath and the size and scale that's there.

Natasha Vij Greiner:

I think that's a really good point. Not all assets are the same. One is not like the other. James, can you give us a little insight [inaudible 00:41:31] question as well from your perspective?

James Hannigan:

Sure. Hi, everybody. James Hannigan, I lead product structuring for Apollo. I think I would just add, Natasha, and echo something that you said as well. When you range from credit, for example investment grade credit where there's a duration and there's a yield component through to private equity, there can be varying levels of liquidity along that spectrum.

And then the second comment that you made that certainly is picking up on what Sara mentioned, oftentimes you're finding allocators access through fund structures that would themselves have either a term. You think about the legacy private equity funds where somebody would commit for something like a 10-year period. Or a structure where there can be periodic redemption rights, and that redemption right is an important one for allocators to understand how much liquidity is available, what limits there might be. And that could be very helpful to folks that may be looking to periodically rebalance their portfolio and get back to a target weight.

Natasha Vij Greiner:

Anyone else have any thoughts on this issue? Otherwise, we can move to the next question.

Are there certain fund structures that can provide the benefits of private market exposure while ensuring sufficient liquidity at the fund level to meet investor redemption demands? And how are those fund structures adapting to meet investor demand for more frequently liquidity? James, want to start with you.

James Ryder:

Yeah, I'm happy to jump in here. So by way of introduction, I'm James Ryder, an investment strategist, State Street Investment Management. Specifically focus on our defined contribution business. So we're, just for level setting, looking at this from the perspective of a traditional asset manager that has really gone through the journey of evaluating private market exposures for inclusion in multi-asset portfolios like target date funds.

So when we think about this, I've been at State Street for, frightening to say, over 10 years now, and we've been thinking about the idea of private markets and multi-asset portfolios for the entirety of that time. And you really need to separate the investment case from the implementation piece. So it was never the investment case that was the problem. It was really the structure. Thinking about those historical, as James just mentioned, drawdown type models, upfront commitments, ongoing capital calls, the potential for a J-curve, none of these things are compatible with the defined contribution ecosystem, daily traded, daily value. So it was really kind of a square peg in a round hole conversation. And it's really been not necessarily new, but the evolution of these evergreen structures and moving from that traditional drawdown structure to these intentionally perpetual semi-liquid structures that has made private markets as generally a better fit for multi-asset portfolios like target date funds. So I think starting there is an important point.

And the other piece of it is the evergreen universe has grown dramatically over the last, call it five years. We're talking about a universe that was fairly small at one point, close to \$500 billion in evergreen strategies today. So a much broader universe of strategies to evaluate, to compare to benchmark when we think about how to implement these exposures.

The question around liquidity I think is one that is particularly interesting, especially to us, because when we think about the unique needs of defined contribution plans, it's really important to separate, as multiple have mentioned already, that plan level liquidity, which is important, from participant liquidity, which is absolutely crucial table stakes, like conversation stops if participant liquidity is impacted.

So when we think about private markets, I think, I don't want to speak for everybody at the table, but we're talking about a modest allocation to private markets within a professionally managed portfolio. And a modest allocation to private markets implies a meaningful allocation to public markets. And when we think about target date funds, the way that they're structured, participants don't trade them very often.

So just first and foremost, the idea of the target date fund as the vehicle to address that participant level liquidity, a modest allocation to private markets if implemented appropriately should not really impact that. It's really those larger events, that plan level liquidity, when we think about rebalancing from an asset manager perspective, when we think about plan level redemptions. To put it bluntly, if somebody wants to hire a manager, they have to feel comfortable that they can fire that manager.

So thinking about it in those terms, that is where you move beyond the target date structure and have to think about the specifics of that private market vehicle. So some of the things Sara just alluded to, the scale, the diversification of those underlying investments, how much cashflow does it generate? And I think the question, the way it's worded is appropriate because the question is, can you ensure that liquidity? No, you can't ensure it, but you can be very transparent about these are the layers that are in place, these are the management processes that are in place to really maximize the probability of delivering on that stated level of liquidity. And I think that's the level of transparency that you need to ultimately get plan sponsors comfortable with this conversation.

Natasha Vij Greiner:

Sara, I want to get your thoughts on this question as well.

Sara Shean:

Yeah, I think James actually really nailed it in terms of thinking about the overall structure and how privates can fit in. And maybe I'll just put a little bit of a finer point. We look at liquidity on those two levels, what participants need to transact every single day, but then what the target date or the multi-asset fund needs to rebalance on some periodic basis. And those tend to be the larger, chunkier flows that we see and we have to plan around.

So I think that if we look through, so you can get a large amount of liquidity from the 80 to 90% of the target date fund that's fully liquid and public, but you can look through to these private market funds and they're building structures within them to enhance liquidity at the private fund level.

So for example, they might include a built-in liquidity sleeve. So if it's private real estate, it might be REITs. And with that additional built-in layer, what you can help do, again, you can't ensure liquidity, but you can help provide a better experience in terms of more consistent liquidity when you put that extra layer in.

I think the really important point here is structure-wise, there will be no one size fits all for the defined contribution space. There are numerous ways to get at this. You can have liquidity in the private fund, you can have liquidity outside the private fund. But if we all follow those key parameters that have been mentioned multiple times, professional management, multi-asset structures, modest allocation to privates, that's really the key to implementing [inaudible 00:48:19].

Natasha Vij Greiner:

Yeah, I think your point's well taken by both of you is that not only is the regulatory framework existing, but evolving, so is the market, as you consider [inaudible 00:48:31] and the private markets which have been expanding exponentially over the past couple of years are also thinking about how they will be

better suited for these type of accounts or fund vehicles. So I think that's very fun. Marc, I want to get your thoughts on this question as well.

Marco Bertolino:

Yeah. James and Sara did a fabulous job covering it. Marco Bertolino, I lead product development efforts at KKR. I think that the headline here is that today the industry has developed flexible semi-lipid structures that are far more compatible within the DC plans and allow participants to benefit from what traditional strategies on the institutional sides have benefited from many years.

So I think the, James mentioned this as well, the old 10-year lockup model where you let your money run its course, it just doesn't fit well in this space, let alone in the wall space. And now we understand that doesn't fit well in the defined contribution space. So these semi-liquid evergreen strategies, the way that they've been structured, the way that they've evolved over the years are quite well positioned to really fit well within the DC plan space.

Natasha Vij Greiner:

So next question, how do liquidity and management tools fit into the overall strategy for servicing investor needs and maintaining fund stability? Are redemption limits and gates and other mechanisms, features, or drawbacks ... Are there, sorry, are redemption limits, gating mechanisms, features, or drawbacks for managing liquidity? Sara, I want to kick this to you first.

Sara Shean:

Sure. So the reason that we have these liquidity management tools is so that we can enhance the investor experience by providing more predictable access to liquidity. If we think about a predefined monthly or quarterly liquidity allowance in some of these private market funds being used for DC, I think somewhat turn that on its head and say, "Well, that's a liquidity limit and you're limiting my liquidity." But we view this as a protection to investors. So if we say to investors that the fund will make available X amount of liquidity on a quarterly basis or each investor based on their size, their NAV, will receive 3%, 5% of liquidity in a given quarter, what we're doing is trying to create a mechanism for equal access to liquidity during normal market periods.

And when we do that, we then enable the asset allocators to plan. I believe I will have this much access to liquidity, and then I can work around my multi-asset portfolio and the other public assets I have to rebalance. When and if there are stress periods in the market and there's limited liquidity in the privates because the vast majority of these multi-asset portfolios are public, you can still work around that. But the liquidity allowances we believe are an important component of setting expectations around what might be available.

The other really important part of that is if you have a liquidity allowance and it's stated upfront and predefined, what you're doing is ensuring that the largest investors or those that trade early in a given quarter aren't consuming all of the available liquidity before everyone has access to it.

Natasha Vij Greiner:

Anything else?

James Ryder:

No, I think Sara covered it well. And I think that when we think about liquidity generally, the evergreen structure has been such an important innovation and evolution in terms of the ability to access ongoing liquidity. It does not inherently ensure that the underlying investments are any more liquid. You can put in an evergreen wrapper on anything, it doesn't make a private equity strategy any more liquid under the hood. So really thinking about the composition of those underlying portfolio components, how do they generate cash flow? How is that liquidity, even if you're suggesting, say, 5% quarterly liquidity, what is the actual process for generating that? Not just in normal conditions, but also in those stress test type environments because I think it's been ...

When we think about DC plan sponsors, the first question is always, how does this break? It's not what happens in normal market environments, what happens under normal considerations. It's when things get stressed, what is your process for managing through that? So transparency is incredibly important in laying out how that is exactly done. And the wrapper, as I said earlier, is very helpful, but it doesn't inherently ensure these things.

Natasha Vij Greiner:

Thank you. So we had the Deputy Secretary Sonderling [inaudible 00:53:05] but in the prior session, Commissioner Uyeda, and he's been very active in speaking about exposure to the private markets. And he recently observed that the exposure to private investments to 401k and other defined contribution plan expands the investment opportunity set for retail investors. And he noted for funds with target dates significantly far into the future, the intended holding period may be better aligned with the limited liquidity of securities from exempt offerings relative to other types of open-end funds where the intended investor holding period may be shorter. And by investing only in other open-end funds, target date retirement funds forego exposure to private investments and the potential diversification [inaudible 00:53:47] might bring.

So the question on the table is, how are firms thinking about providing retirement investors with exposure to private investments in a way that reflects the liquidity characteristics of the underlying investments

while also accounting for the diversification benefits and the potential for risk-adjusted returns that private investor bring?

So Nick, I just wanted to start with you first and to kind of tackle that question in the context of what Commissioner Uyeda had previously said.

Nick Nefouse:

Great. Thank you. Nick Nefouse, I oversee the target date funds globally for BlackRock. I'll try to do something different than what James and Sara said. I think we'll just keep repeating ourselves if we're not careful.

I'll make a couple of key points. First one is we tend not to look at private markets and public markets as different asset classes. We think of it simply as traded versus non-traded. There's not something special you're getting with private equity that you're not already accessing with public equity. For example, you're buying economic growth just in a traded versus non-trading.

So what we want to start with is at the portfolio level. What's the allocation you want to equity? Whether that's traded or non-traded, we would then break that down further into the criteria around liquidity, expected return, expected risk, fees, those types of things. And when we get into liquidity and we think about the equity risk premia where you would expect somebody with a longer time horizon, you want to access that premia, that's not always the case, that hasn't worked out in the last five years for private markets versus public markets. We can debate the reasons why if you're a US-based investor.

But another part that we have to really look at is what happens behaviorally to different investors. Because we know young investors, while they have a very long time horizon, don't stay in a 401k plan for very long because they change jobs. So we have to think about what are the negative impacts you could have in your 20s if you are in these structures and you are moving jobs? We think between five and seven times between your 20s up until you're about 40 years old. So if you're accessing these illiquid vehicles, are you paying a cost to being in those illiquid vehicles instead of just staying in public markets? Now, that doesn't mean we don't own them, but we just have to overlay that.

Similarly, we know that older investors are more sensitive to market movements, so we do see more trading happening in quarters of high stress. Now, unfortunately we haven't seen, or I should say fortunately in this case, fortunately, we haven't seen multi-quarter down market returns coupled with unemployment since 2008. The reason why I bring that up is we really don't have a lot of analysis of what's going to happen to both behavior as well as private markets in an extended recession in the US. So we know what happened in '08, we can see what happened 2000, 2002-ish. But I think those are two things to consider when we're thinking about building these into portfolios where if we look at the last 15

years, markets have pretty much gone up, with the occasional drawdown in a quarterly period. 2022 is an exception, but unemployment stayed very low, so you didn't have people leaving jobs.

So in a roundabout way of answering your question, it's both liquidity at the investment level, but it's also understanding what happens to individuals when they either face career hardships or when they're just changing jobs naturally, which is what we see, what we've always seen for peoples in their 20s and 30s.

Natasha Vij Greiner:

Are you able to articulate what percentage? It's a very good point of like, we think 401k. I start it when I'm hopefully in my 20s or 30s and it exists in its original form until retirement, and that is actually not entirely true. But what percentage of retail investors or investors kind of change 401k plans or switch 401 plans over the course of what you would think is the contribution period prior to retirement?

Nick Nefouse:

So the best data we have is just job changing. We can't actually see at the individual level how long somebody is staying in because we would just see it, and the way the cash flows work, our flows remain very constant. So at the high level, we don't see lots of outflows at all from target date funds, with the exception of launching a new long-dated vintage, which is a esoteric thing we won't go into here. But outside of that, people stay constant. What you see is a churn within the funds.

And what we know is if you go from one firm and you're invested, we'll say at State Street and you move to a firm that has BlackRock, there is a sell and a buy generally. Some people will leave it behind. So if you look at Pew Research data and you look at how many times people switch jobs between their 20s, their 30s or 40s or 50s, it declines dramatically. So about seven job changes before you're 35 years old. And then after about 35 or 40, it's one or two job changes. So we know that those people will likely be moving in and out of different target date funds.

Natasha Vij Greiner:

Yeah, and I think beyond the very interesting kind of statistics behind it and the thing I think people don't think about is because I think most focus, especially from a regulatory context, about market stress, and we're going to get into that at the end of our session to talk about how have all of us managed in times of stress, but the non or atypical non-stressful environments and how does that affect liquidity decisions and how a fund vehicle or a retirement plan should be constructed to permit investors to come in and out of these investments.

Bradford Campbell:

Well, it's worth noting that that is actually one of the factors the Labor Department identified in its 2020 guidance, was saying that plan fiduciaries need to take into account the plan demographics of their own specific plans. So you can look at those patterns. Do we have a high turnover of employees? Which would affect how we might want to structure the investments and really the whole plan design to meet the needs of those individuals.

Natasha Vij Greiner:

So again, not something necessarily new. It's something that we've been considering. We generally, as the industry, have been considering for these types of investments from the inception. Andrew, want to get your thoughts on this question as well.

Andrew Jacobs Van Merlen:

Yeah, I think Nick covered it well. So Andrew Jacobs van Merlen, I'm a targeted portfolio manager at T. Rowe Price. I think one of the things that's unique about the defined contribution space versus some of the traditional pools of capital that have been investing in private markets is just the general repetitive cash flows. So think about as American workers get paid twice a month, once a month, this is positive cashflow versus you think about an endowment or something and there's a pool of capital and there are flows, but they're much chunkier and less predictable.

So with 30 years of history of target date investing, the cash flows are very predictable. And what you see is they largely grow over the life cycle as people earn more, save more, and then they kind of come off. So the outflows are relatively predictable and the end flows are relatively predictable as well.

And I think to me, this is, if you think about liquidity risk, which is the focus of this conversation today, there is generally a pooling feature, particularly of target date funds or professionally managed portfolios like this, that only mitigate that risk across the population of target date funds. So there's less likely of a draw on capital. I know we're going to talk about dislocations in a minute, but the assets and particularly in targeted funds are very sticky.

We have some research that suggests that a target date investor is about seven and a half times less likely to trade in any given quarter than somebody that owns anything else other than a target date fund. So long time horizon, sticky capital. And I think this was some of the onus behind the executive order. Generally Americans need these assets to work for them. So ultimately, they have long time horizons. The risk of them running out of money is probably [inaudible 01:01:19] today. So if you have access to asset classes that can either enhance returns through illiquidity risk or diversify the risk along the way, certainly it's advantageous for many of our shareholders.

Natasha Vij Greiner:

Yeah, I think even when we think about COVID or other moments in time where investors redeemed, some of them are not even doing it because they need the money. They're doing it because they're worried about the money or the possibility of losing the money, and then they will put it right back in once they stabilize.

Andrew Jacobs Van Merlen:

And again, so in our research, we looked at trading patterns even in periods of market [inaudible 01:02:02], and that relationship held. So generally speaking, people don't trade in a target date fund, but that relationship held even in period of market stress.

Natasha Vij Greiner:

Interesting.

Marc, I want to get your thoughts as well.

Marco Bertolino:

Sure. Maybe just two brief comments. The first, I would say that liquidity isn't binary. I think that's an important distinction. It exists on a spectrum. If you think about private markets, different private market asset classes can offer different liquidity, call it profiles based off of the underlying holding. So if we're talking about non-traded, traded, I think it's important to start looking at the underlying. I think that's one.

The second thing I would just note is this is where the target date fund is really powerful here. A diversified target date fund can incorporate less liquid assets while still meeting that kind of liquidity need within the glide path dynamically, kind of adjusting private market exposure based off of the participants', we'll call it progress through the retirement journey. So I think there's definitely, it's an important part of that distinction is to really look under the hood and make sure that you understand that there is liquidity within the underlying or different liquidity profiles within the underlying holdings.

Natasha Vij Greiner:

[inaudible 01:03:21] we haven't talked about, when we're thinking about liquidity and portfolio diversification, is it a one-time analysis or is it a consistent pattern of monitoring investments? And I think you've kind of alluded to this, but I think it's a very good point of this is not, we create something and we walk away. You're constantly thinking about the rebalancing or the diversification aspects of the portfolio investments for purpose even in a target date fund. And I don't know if you have more comments on that, but I-

Marco Bertolino:

[inaudible 01:03:51].

Natasha Vij Greiner:

... think that's a very good point.

Marco Bertolino:

Look, I think there's definitely, from our perspective at KKR, these are actively managed, professionally managed target date funds where these-

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Marco Bertolino:

... managed target date funds where these traditional managers are in fact looking at these dynamically and ongoing. So definitely a good-

Natasha Vij Greiner:

Yeah. And thinking ahead, always thinking ahead, but what might be around the corner and considering the portfolio and the diversification aspects of that.

Andrew Jacobs Van Merlen:

I'll double click on something Sarah said, predictable cash flows. And I think that's the piece. So if you think about from where I sit as a portfolio manager, during a market dislocation is not the time I'm looking to rebalance my portfolio from liquid assets to illiquid assets. So ultimately, the source of liquidity during dislocation are often defensive assets that are actually holding up really well and that's not private equity, private real estate potentially, but you're not looking to fund your liquidity needs from your most illiquid because these tend to be temporary. And so, when markets normalize and you have these predictable cash flows, that's when you tend to adjust your portfolio. And think about, I think Brad was mentioning typically you're seeing allocations between 5 and 15%, so that means you have 85% of liquid assets. So again, very similar to a pension plan. When you have liquidity needs, you fund it from your liquid portfolio, and you adjust your illiquid when markets normalize.

Natasha Vij Greiner:

I want to move to the next question. What are those trade-offs between liquidity and return potential in private strategies? And James, I wanted to kick it to you first.

James Ryder:

I mean, I think the illiquidity premium is a key driver of the investment case for private markets generally. And back to what Nick said, I just want to make sure I'm not reiterating what others just said slightly different words, but I think that every asset class is going to be different. So thinking about your traditional private equity may have the highest long-term return expectation, but is also going to most likely be the least liquid and potentially the most volatile. Whereas if you get into the more cashflow generating investments, your return expectation may be a little bit lower, but your liquidity expectations are a little bit higher. So it's just thinking about it in that broader context.

And I think what it ultimately boils down to is, do you believe that the investment case for private markets when bringing into a diversified portfolio primarily public markets is additive? And I think generally speaking, there's going to be a lot of nuance in how performance is measured. We're thinking about moving from this drawdown structure where you're talking about IRRs to evergreen vehicles where you're in a more conventional time-weighted return type environment, but there's also differences in terms of that money is, theoretically anyway, put to work right away, and that's very different from your traditional vehicles.

So I think there's a lot of considerations there. We mostly focus on liquidity on the redemption side because I think that's what most are concerned about, but you also have to think about the ability to put money to work in a timely manner so you're able to generate those excess returns potentially. So I think there's a lot of considerations there in terms of that trade-off, but I think ultimately when we think about the case for private markets, it's driven by diversification. It's driven by expanding the opportunity set, ultimately improving potentially, there's obviously nuance here, but potentially improving risk-adjusted returns. And the liquidity piece is just something you have to manage around that to improve that potential investment case.

Natasha Vij Greiner:

And Andrew, I think your perspective as a portfolio manager is something you probably think about every day and return potential is something that is a huge consideration for you. So I'd love to get your thoughts.

Andrew Jacobs Van Merlen:

Yeah, absolutely. So I think it's early days. So clearly if you look historically, there has been an equity premium in many of these markets in their purest form in these illiquid structures. And so, when I think about this on a going forward basis, I kind of look at it in two ways. One's from an efficiency perspective and the other one from a structural perspective. So the easiest one is the structural perspective. So the new structures that you're seeing now or the evergreen structures, there's going to be a liquidity sleeve in

the portfolio. Sometimes they're pretty sizable. 20% of the portfolio in public markets that will be a drag on that premium that you would've gotten from these traditional liquid investments. And so, that's one piece, that there'll be a drag that'll degrade generally that excess return expectation.

And then the other piece is on efficiency. So you look at certainly... Even looking across more efficient markets, as markets become more efficient with, and we haven't talked about this yet, but the emergence of a secondary market for private assets or more assets being deployed in this space, more funds raising assets in private markets, generally what you'll see is the return expectation of those asset [inaudible 01:08:44] tend to come down over time. And so clearly, if you look historically, the premium has been relatively large, so it can bear some of that drag. But certainly, with all these structures with one, two, three years of history, I think time will tell whether we can pour that secret sauce that we've seen in a liquid structures to a more liquid structure.

Natasha Vij Greiner:

[inaudible 01:09:11] to object. Moving on, are there any specific considerations or opportunities around managing liquidity that apply in a target date fund context? Nick, I wanted to get your thoughts on that.

Nick Nefouse:

I covered most of it, I think, in the earlier [inaudible 01:09:27]. Yes. And if I think about layers of liquidity, there's kind of the daily transaction liquidity, which we don't worry much about. Most of that will be netted out anyway on the days we can manage to those. There's the quarterly rebalancing, which generally is okay because we have visibility on the quarterly rebalances. We know what we're going to do, and then you'll trade to a target weight. The only area you worry about that I really worry about, I should say, with liquidity, particularly in the early days, is plan termination. That's the biggest one. So until you get to scale with a lot of these, all of us in the target date funds that are here, you can deal with plan terminations now in our big portfolios because they're big. I think Sarah made the point, a 50 million dollar private markets fund versus a 50 million dollar private markets fund have different liquidity profiles. It's no different than a target date fund.

The target date funds in the US for us are 500 billion dollars, so we can take on inflows and outflows at a plan level easily. However, when you're building up these structures now with whether you're using evergreen or non-evergreen structures in a target date fund, if you have two investors in that fund and one of them leaves, that's going to be illiquidity. There's very little way around that. So we think about liquidity as a waterfall and then how to manage through those waterfalls. I think James said it well. It's not about hiding the liquidity. It's saying that that's part of the feature of what you're buying here. And that's also the risk, particularly in the shorter term until these products come up to scale.

Andrew Jacobs Van Merlen:

I think we've covered this one pretty well. I think Nick has the same concern that a plan termination or a large flow, so those are things that are difficult to plan for. I think the good news there is you normally have advanced notice, and you can come to these more predictable cash flows. But certainly I think about... And another point that Nick had made earlier, I think about private equity as equity stakes. I think about private credit as credit investments, private real estate as real estate stakes. So ultimately, there was a prior session on valuation, but their valuations are different. And so, I think about this as the light touch part of the portfolio.

If you look at... And again, come back to that valuation that was talked about in a prior session, while their valuations are different, none are wrong and they converge over time. And so, I think about that as one of the things, public markets tend to lead private markets in terms of the evaluation. And so, if one has to scale or one has kind of a forward price, you don't want to trade the two together. So I think about, again, not touching the more liquid part of the portfolio on a day-to-day basis. It's kind of the light touch part of the portfolio. It's a long-term part of the portfolio. And so, I think that'll help from a liquidity perspective as well.

Nick Nefouse:

And just going back to a comment you made earlier, all of this has to be incorporated into the decision of whether or not to own the asset or not own the asset. I started my comments purposely to say this, private markets are not a new asset class. It's a different way of accessing equity growth, credit, and we have to take into account illiquidity. We have to take all of these things into account. So I often, when I talk to clients about this, I think of it as large cap versus small cap. Both equities, it's about what is the different risk return, liquidity, fees you're going to buy, you're going to be accessing if you're going to choose private equity versus public equities? So we have to think about it in that same spectrum. I think Mark used the word spectrum.

And I think of it not as a public market spectrum and a private market spectrum, but an investments spectrum. And there's just different ways of accessing things that are traded versus non-traded. All of that has to go in the mix. And what most of us that are in portfolio construction look at is the mean variance optimization, to use a big phrase, of just what's the risk return. We now have to add in illiquidity into that optimization to understand what is the total impact this is going to have? Because what we're going to be judged against, whether we like it or not, is a public market benchmark net of all fees.

Bradford Campbell:

And I think it's also worth pointing out that again, this issue of liquidity and redemption and limits that may occur is not new or unique to private markets. ERISA plans have been dealing with these questions in insurance products for decades. It's not a foreign concept for fiduciaries to make sure they understand

whatever restrictions and risks and potentials are there and address those in their overall investment decision.

Natasha Vij Greiner:

Yeah, I was going to say the same thing, Brad. Literally, as you were talking, I was like, I think one of the overall themes that we maybe we just want to say out loud, which is illiquidity, it's not specific just to the private markets. This is something that you all have been thinking about as it relates to any type of investment, and different investments have different liquidity potential. And it's just, this is a bigger pot that maybe you might have more access to today, and so you might have to think differently about, but it's not a new topic, Brad and Nick, as you both had mentioned.

Andrew Jacobs Van Merlen:

I think you're making the case for why this would likely be in targeted first. So there's an existing governance structure, liquidity management structure. Certainly, there's less liquid assets in those pools of capital today that are already... So it's really an extension of frameworks and structures that are already in place. So, it tends to be at the place where I think it would be easiest to absorb in that context versus on a standalone basis.

Natasha Vij Greiner:

Yeah. And I think even just in the non-retirement context, close-end funds have been investing in private investments under the 15% mark for 20 years. So again, not new even in the securities' context outside of retirement. It's just once you increase percentage, you have to think you have additional considerations to make. I know disclosure transparency is a discussion for later, but all those things have been changed, liquidity framework, valuation framework. All the things that CIFMA panels have been talking about do not change. They've been doing it for 20 years. They're just doing it now under the microscope, because everybody's paying attention to it. It's not 60 funds, it's 100 close-end funds. And regulators are starting to think more about the regulatory regime around retirement and/or traditional security, the registered vehicles.

So, next question. Asset allocation funds being developed to provide investors with exposure to private investments may include allocations across various public and private equity and fixed income investments. How does this factor into equity management? And Nick, I wanted to kick it off to you, first. Which I was like, Nick, poor Nick. I'm like, I could kick it to Andrew, which he [inaudible 01:15:47] And I know Marco is also slated for this question, but just wanted to get your thoughts on it. And I agree, I think some of these themes are kind of the same, but any thoughts you might have on this would be helpful.

Nick Nefouse:

Very little to add. I would just go into one of the asset classes that we're looking to add in or one of the assets we're looking to add in would be private high grade debt. The reason why I bring that one up as an example is we have public high grade debt. And we look at private high grade debt as basically the same thing, same credit quality, but one is less liquid than the other. So we think of that again as part of the same portfolio. If we had a liquidity draw, we would draw the public first before the privates, but it's the same piece.

The last point that I'll make is right now in our target date funds, on our index funds, we have about 10 or 11 individual building blocks. The simplest way that I try to describe this is we're simply going to add three or four more building blocks. Those are going to be less liquid building blocks, but we still have to run this as a whole portfolio using all of those building blocks. And then, we will want to move in and out of those building blocks based on expected risk and return.

Natasha Vij Greiner:

[inaudible 01:16:56] we can open it to anyone, too. I've been picking on certain people, but anyone can answer the question. Otherwise, we have about 15 minutes, the last 16 minutes. And I was going to open this question to everyone. I know Sara and Andrew were slated for it. But I think one of the things, as regulators consider expanding retail access to the private markets, the thing that they're most worried about, which we've talked about, is market stress. When investors want to redeem what happens, liquidity is the topic of the day for this session. But this is not new. Nick alluded to it, others did. We've gone through... We as industry have gone through, the markets have had stress for various reasons, pandemic, other reasons, nature, natural disasters, market tanks. What have we learned from the past that will help us in the future on how we, as an industry, have successfully managed times of stress or unsuccessfully managed times of stress that should be considered as regulatory move forward in this space, as the industry moves forward in this space?

And I'll open it up and anyone can answer, but I thought it'd be a good discussion point, because I think from my observation listening to all of you today, is that there's a lot of experience at this table. There's a lot of experience in industry. I think we all are thinking about this. And so, as this evolves from a regulatory perspective, as an industry perspective, what are the things that you're thinking about and how have you learned from the past?

James Hannigan:

Happy to go first. I think at the last session, Commissioner Rada talked about how there may be an optimal level or maximum level of private market exposure, but to say that it's zero probably is the wrong level. And so, I think it just emphasizes the role of a professional manager who is sitting at the top and thinking about, "What does the reasonably worst case outflows look like in stressed and normal markets, and what does that imply in terms of how I size this allocation?"

So I think there is data through various market environments about how much public and private assets may disconnect. If you had a desired 10%, is it possible based off of your modeling that that could become 15, 20? And then you have to, as you think about that, then on the other side, if it did become 15, is that something I still feel confident I'll be able to, on a go forward basis, be faithful to my commitment on our daily liquidity? I think the answer from today's comments have been, yes, but the details matter there, and that's where the professional manager can really play a key role.

Natasha Vij Greiner:

Yeah. And when I was in the role as director of IAM, that question, the arbitrary nature of the closed-end fund 15% distinction, I struggled with. I came into that. It had been 20 years in the making. And not something I think the commission could stand on from a litigation risk in the end. And I think Commissioner Rada's point, I agree very much with, which is professional discretion. There's a lot of things that should be considered to have the arbitrary nature of 15. And when people would ask me, "Well, why 15?"

I'm like, "I don't know. It could have been 12, it could have been 20."

And so maybe we don't [inaudible 01:20:39] SEC or Department of Labor should make those kind of lines. I do think that the SEC in particular will be focusing on it and monitoring in this space to see if there should be a line now that they've removed it, but it would probably happen less through staff guidance and more through rulemaking. So you're looking at years in the making and maybe specific to particular registered vehicles, fund vehicles versus generally... But I think your point, I think professional discretion, having the ability to go from 11 to 10 to 8, depending on market environment, investor demand should be kind of a professional discretion based on the parameters, whether it's ERISA or SEC, regulatory. Any other thoughts?

Sara Shean:

I might add that I think the allocators in the room have done a very good job of articulating that. The key is, you anticipate what's going to happen in stress markets and you stress test that ahead of time so that you know the area that the portfolio you draw from when the stress comes. But I might share a lesson learned from our investing partners in the pandemic when we did see market stress, particularly in the private real estate space. And what some of our investors found is they altered guidelines because for our investors that have been doing this since 2009, for example, their guidelines had not been changed and were very, very specific. So they were, we will rebalance this portfolio at the end of every month or at the end of every quarter. Or, if we hit this percentage, we have a certain threshold on each of our investments in the portfolio, and we must rebalance if we hit the thresholds.

And I think what they learned in that experience was we have to have guidelines, obviously, but there has to be some give, and many of them changed their guidelines to say, we do have the discretion, and this is where that professional management is so important, to say, yes, we've hit the top of our threshold. But A, either we don't have full access to liquidity, and we have to let this position ride for now, we'll access liquidity elsewhere, or B, it happens that this private asset is the best performing asset I have, which is why it's hit the top of its threshold. Why do I have to sell away from it to access lesser performing assets in the immediate term? So I do think the industry came away from that period with a very good lesson learned that changed behavior that we see now just in terms of guidelines are very important, but they're a bit more flexible than we've seen in the past.

Natasha Vij Greiner:

Yeah. And I think especially as you're managing a portfolio, managing to a percentage numbers [inaudible 01:23:17] is much harder than, and maybe even not to the advantage of an investor, than managing to the market, managing to investor demand, which is more practical in nature, and probably more pro investor protection, to be quite honest. Any thoughts about past experience and moving forward?

James Ryder:

Maybe just a very simple point to follow on Sara's extremely well-articulated point that... I don't want to step on the toes of the next session, but this is really about transparency. It's about no two stress scenarios are going to be exactly the same. So your backwards looking modeling may not be perfectly indicative of this new world we're in where there's significant flows coming in from different channels, and it's just going to be different going forward. But in those stress test scenarios, what does your process look like? What is the likelihood of where are you going to draw assets from if a maximum redemption comes in, what does that process look like? Are there lines of credit in place? Just being very clear and very transparent in what that process looks like while being clear that in certain events there may be scenarios where you have to implement that. But just being very clear and articulating to plan sponsors what that process looks like, I think, is important while clarifying that no two scenarios will be exactly the same.

Natasha Vij Greiner:

Yeah. It's funny, especially after today's panel and the wealth of experience at this table, especially as a prior regulator, liquidity would've kept me up at night. But I think if I think, and I'm excited to hear the next panel on transparency, we as regulators put so much weight on disclosure and transparency, but I would worry even sitting here today more about the disclosure transparency point than I would because most investors, retail investors, are not reading those disclosures. But it gives me more comfort to hear all of

you talk about what you're doing on a daily basis that most retail investors would not even know you're doing. And I think that's why liquidity management and valuation is so important because transparency is key from purposes of considering investments at the advisor level to fund level or the retail investor level, but understanding the active management and all of your experience that goes into considering diversification and liquidity consideration based on past experience would give me more comfort, I think, going forward.

So I know we're a little early. I don't know if [inaudible 01:25:45] will kill me for giving you a 15-minute break instead of a 10-minute break, but I wanted to thank all of you for this really great discussion.

James Hannigan:

Natasha?

Natasha Vij Greiner:

Yeah?

James Hannigan:

Can I just have one last comment as we sort of think about a full file? There's been a lot of discussion about target date funds as an implementation tool. Another implementation tool that can have some of the same features in terms of professional management and our managed accounts. They're somewhat deconstructed similarly, but it's the same exercise of having a sensible mix of equity, credit, real assets, public, private, but it's just tailored maybe to an individual participant's investment horizon or risk tolerance. And so, just as we think about guidance that hopefully is enduring for a changing market to the extent that managed accounts continue to play a bigger portion of the delivery mechanism, I think day two could be benefiting from private markets.

Natasha Vij Greiner:

Yeah. I think my perspective is, this is just the tip of the iceberg in this discussion. I think historically, obviously, there are many different registered vehicles or retirement accounts that have been in this space. It's just expanding in nature. And I think a lot of the topics, a lot of it was focused today on retirement accounts or defined contribution accounts because of the deputy secretary opening it up and the wealth of experience in the room. But I think you could have this discussion on specific... I opened it up and you could talk about target date funds, just specifically, you could talk about closed-end funds, you have listed unlisted closed-end funds, you could talk about interval funds, whether the regulatory framework works for interval funds in this context. And so, I think we can keep going. And I think this is

just the beginning of the discussions, not only from an industry perspective, but also from a regulatory perspective. But again, thank you all. I really appreciate it, and I'll kick it off [inaudible 01:27:42]

Pete Driscoll:

Well, good morning, everyone. We are now doing part two of part two. So we did liquidity this morning. We're following up with transparency, and I'm Pete Driscoll. I'm a partner at PWC in the national office. I focus on both asset wealth management clients as well as banking and capital market clients. I joined PWC from the SEC where I spent 20 years as the director of the division of exams [inaudible 01:28:17]. So, I've been spending a lot of time focused with clients on the retail [inaudible 01:28:22]. It's certainly a hot topic. And as everybody in this room has, and I'm sure most people online have.

Thank you to SIPMA for putting on this important event. I'm going to echo Natasha's comments from this morning. In addition to liquidity, transparency is critical to investing in the alt space. I think for starters, it's important to consider who the transparency is for. And I think it varies depending if you're in the defined contribution space or the security space. And in the DC space, plan trustees and sponsors play a key role, but also participants. In the security space, investors are the target for transparency and disclosure, and that was discussed a little bit this morning. But those investors can be institutional, they can be retail, whether they're high net worth, whether they're more broad than just high net worth. And then also trustees of fund boards also play a role in our consumer of transparency, particularly in the valuation space.

We heard a lot this morning about the advancements and potential advancements coming out of DOL, but also just around the table of how firms are coming to market and developing products that will provide greater access to alts in the retail space, whether it be through plans, whether it be through just market products that are out there.

I think Brad mentioned this morning, the defined benefit space has utilized alts for decades. And I think that we're seeing the DC space catch up as well through target date funds and other mechanisms, but also we're starting to see a lot more in the security side with interval funds, evergreen funds, tender offer funds. The interval funds has been a proven path. And so, we're seeing a lot more registrations of those products coming out of the SEC and then into the market.

Today in this panel, we have a mix of participants, including asset managers, council, service providers, and rating agencies. So we'll hear from all of those folks and their different perspectives. We'll cover a range of, I guess, topics, including data and disclosures. We'll hear from Jane and Andrew, comparisons between information provided by registered funds and plans, just with the different audiences, gaps in information that are provided to investors, what those are and how we can solve those. Challenges with confidentiality, use of material non-public information, use of technology, use of service providers, and trends and best practices. So let's get started. First question, this is going to Jane and to Andrew, who are

flanking me right now. What types of data and disclosures are currently available to investors and plan sponsors in private markets and how do they compare to the public market standards? Go first?

Jane Kirkland:

Certainly. I'm Jane Kirkland. I run the regulatory communications business for asset managers at Broadridge. As we've mentioned in our prior discussion, plans are different than markets that investors access directly through brokers or other vehicles. So in the plan, a sponsor does have this fiduciary role and they're selecting a set of investments. Therefore, the disclosure regime for plan participants focuses a bit more on the plan than on the individual investments. So the disclosure for plan participants talks about the purpose of the plan, the objectives, some of the economics, the fees and expenses, and material changes that might have occurred.

And then, there's some summary information on the investments, which really only includes the fund category, fees and expenses, 1, 5, and 10-year performance, and then there are references to other materials like the prospectus that investors can reach. So it's a little bit different than what investors see when they invest in a fund or an ETF directly, and they receive disclosures like [inaudible 01:33:27] shareholder reports that might have a little bit more commentary on what was driving the performance of the fund or about the composition of the fund, top 10 holdings, et cetera.

The plan sponsors, of course, are receiving the information about the investments directly from the asset managers, and they're going through a rigorous evaluation process in which they're looking at investment strategies, portfolio composition, portfolio turnover, liquidity, performance, a much, much deeper view of those investment options that they are evaluating for plan participants.

Pete Driscoll:

Andrew, anything you want to add?

Andrew Jacobs Van Merlen:

Yeah, I think just generally from the perspective of a professionally managed portfolio, so I manage target date funds, and I think what's really important, part of my job and the framework [inaudible 01:34:26] portfolio is there is an existing due diligence process, an existing oversight process, overseeing value for costs for all of the underlying investments. So I guess the key point from my perspective is nothing is new here. These are certainly newer asset classes that haven't been as widely available in defined contribution space historically, but the process to oversee these is quite similar to other asset classes. And within a professionally managed portfolio, there's an existing framework in place, a governance structure, a diligence structure. And so, it's really an extension of existing capabilities in that sense.

Pete Driscoll:

Yeah. We heard this morning that you look at it in terms of it's an equity, it may be private, it may be public, but it's still an equity or fixed income or whatever it may be from an asset class perspective. But that's the level that you're viewing these investments.

Andrew Jacobs Van Merlen:

That's right. And we have a lot more tools than a retail investor. So we have access to reports from rating agencies to benchmarking subscriptions, people who do this as a day job. And so ultimately, relative to a retail investor that's looking at a perspective, we have a lot more data and information and experience that we can rely on to make sure that our investors are getting the value for cost that we expect.

Pete Driscoll:

That's correct. So speaking of rating agencies, I am going to go to Brian and Mark. And if you could introduce yourselves, too, even though you were here this morning.

PART 3 OF 5 ENDS [01:36:04]

Pete Driscoll:

... and if you could, introduce yourselves too, even though you were here this morning. How can funds and advisors providing private market exposure to retail investors obtain necessary information from private issuers to inform their investment decisions? Are there standard disclosures for private issuers? What do you guys see based on the work that you all do?

Brian Garfield:

Brian, why don't you go first? Sure. I'm happy to help. Pleasure to be here again. I was here for part one and part two, part two, apparently according to Pete, so it's great to be here. So, Brian Garfield, I head up our US Portfolio Valuations practice at Lincoln International, which is an investment banking and advisory firm servicing the global private markets.

And Pete, to your question, the information is there and the funds and advisors that we work with are actually getting that information as part of the processes that we're running. In fact, there's diligence being done, let's say on Lincoln by way of example, each time that we're being retained by a particular client, they're asking us about our processes overall. In terms of getting access to additional private market data, that's also there. In fact, Lincoln, which values over 30,000 portfolio companies across the private markets annually is pushing out information regularly and even on a quarterly basis.

We have published five different indices that are global based, focused on the private markets, two of which focus on the private credit space, two of which focus on the... I would call it more the private equity space. And then, lastly, we have a default index. So, there is a lot of information out there. You just need to know where to go get it.

And lastly, there already is a lot of disclosure, and I know Marc is going to talk about it, because private assets, they're not new to the landscape really at all. And that was talked a lot about in the first panel. And by way of example, like BDCs, they are disclosing in their statement of investments marks, they're disclosing the industry exposure. And in their board delivery and their notes to the investor group, they're talking through the performance metrics at a fundamental portfolio company level. So, I do think there's a lot of information out there. So, I would argue that it's there. And maybe we're just in the early innings of how much more there could be, but there's a lot out there right now.

Pete Driscoll:

Has it standardized over time?

Brian Garfield:

I think we're moving through that evolution of standardization. And so, I think everyone is looking to try to come up with a consistent template and we will likely get closer and closer to there. But what we find with private assets is that they are very bespoke. And so, trying to harmonize every single element of every single investment is going to be a challenge, whether that be even when you're speaking within a specific asset class, they all look and feel a little bit differently than the next.

And so, that's what makes the harmonization challenging, but it is possible. Because even with our clients, when we will give them summary level information, we'll summarize statistics so that you can get a top-down look at a portfolio that we are valuing. But in terms of it being consistent across every single manager, right now it's not. But I do expect it to get to that point at some point.

Marc Pinto:

Yeah. I would say as well, in addition to the heterogeneity of the market, it's continuing to evolve. In fact, if you have five people in a room and you ask them what's the definition, for example, of private credit, you'll get six different answers.

So, it's really where are you starting from? The market is very early stages. Just to back up for a second, my name is Marc Pinto, Global Head of Private Credit at Moody's Ratings, responsible for fund finance ratings as well as business development corporations, private credit CLOs, as well as private corporate debt. What's interesting about this market, which is a little bit different from a lot of the other things we do

at Moody's Ratings is that most of our ratings are public. When we rate a private credit structure, the rating is often private.

So, it's private to the general public. But to Andrew, for example, who will be subscribing to Moody's Ratings, he will get a full download of what we think about the particular fund that we're rating. And that information is based on material non-public information that Moody's receives, analyzes, and then puts out into the market. We go through the exact same process of rating a security, whether it's public or private. But when the rating is private itself, the dissemination is slightly different and it's only disclosed to the institutional investors who are interested in investing in that particular security.

Pete Driscoll:

From a Moody's perspective say, for example, like a PE with PortCos, how deep do you go in terms of your ratings? Will it be at a fund and portfolio level? Or will you go into single names at times?

Marc Pinto:

So, it's a combination. It depends on... We will often not look, for example, if a fund has 250 different holdings, we won't look at every single holding. We'll look at materiality. We'll look at concentrated positions. And if a position is particularly concentrated, we'll do a deep dive. And we can go to any of 1,000 different analysts across our organization. If it's a real estate exposure, if it's some sort of infrastructure, set on and so forth, we'll bring in the expertise needed to look at those positions.

What we'll also though do is look at the industry classifications and make some general assumptions around that. We'll look at not only the portfolio, but the portfolio manager, their underwriting standards, their past performance. They'll look at the liquidity within the fund. There's a lot of different aspects that go into the ultimate rating of a fund.

Pete Driscoll:

Anybody else want to touch on this subject before we move on? Okay. Jane, I'm going to come back to you.

Jane Kirkland:

Sure.

Pete Driscoll:

So, mutual funds, investment companies, they have to comply with the federal securities law and the Investment Company Act, which is multiple inches thick. How does this disclosure regime, I guess,

influence mutual funds or funds, interval funds, tender offer funds, closed end funds that hold private assets?

Jane Kirkland:

So, it's the same standard that's applied to a fund, whether it's holding all publicly traded assets or a blend of publicly traded and privately traded assets or private assets. The difference is in the content. So, just in terms of the disclosure requirements for '40 Act funds, there are three disclosures each year that go to shareholders. There's a tailored shareholder report, which is a summary of the annual report, the semi-annual report, and it covers important topics such as, what's the objective of the fund, the investment strategy? What performance did the fund deliver? And what were the factors that affected that performance? What are the expense ratios? Et cetera. And the other thing that's delivered is a summary prospectus.

So, the difference between funds that are either holding all privately traded assets of some blend, difference will be in the content. So, for instance, if you're looking at a structure like an interval fund or a tender offer fund, which would usually be a '40 Act vehicle, in their summary prospectus, they would disclose the fact that there are liquidity risks.

They would explain how these quarterly liquidity windows work. There are communications that go to the shareholders every quarter to tell them that the window is open. They're able to redeem a certain percentage of their shares, maybe it's equal to 5% of NAV. So, it's really in the way the asset manager uses the disclosure to communicate to the investor what's important about the fund. And I think with the current DOL disclosures, what's disclosed about an individual investment is fairly simple. It is really performance, fees, objective. And so, there's not really a place in the current disclosures to address some of the more subtle aspects of private assets.

Pete Driscoll:

I've spent a lot of time looking at particularly interval funds, just because there's more and more coming on board. And the risk disclosures, you mentioned liquidity, the valuation processes that are used for these types of products. I mean, I will say that I see you're very robust from a disclosure perspective. And to your point, I think where I see future challenges is in the distribution channels and who these products are being sold to under a Reg BI standard or on a suitability standard from a broker-dealer perspective.

So, it is, I mean, you and I were talking before this just about the volumes of disclosures that are out there and does a retail investor actually look at all that and we would hope. So, I am actually, and you alluded to it, I'm going to come to Brad, who is our prominent DOL council. And so, we heard about the security side, but how do 401(k) plan participants receive information on plan investments? And what information

is typically included in the communications? How can these communications effectively incorporate information about private market investments?

Bradford Campbell:

Yeah. So, just for folks who weren't here this morning, my name's Brad Campbell. I'm a partner with Faegre Drinker. I'm an ERISA lawyer and did at one time also work at the Department of Labor making regulations and enforcement decisions.

So, when you look at the defined contribution space, in particular, participant directed individual account plans like the 401(k) that everyone's familiar with, there's really two layers of decision making and there's two layers of disclosure requirements that are different because therefore different purposes made by different people.

So, at the planned fiduciary level, you're deciding what investments to put on the plan menu, and those fiduciaries and their investment advisors have to gather all the information necessary to prudently evaluate those investments, determine whether they're appropriate for that plan and should be made available to their participants.

So, that encompasses a whole range of different investments, which have different reporting regimes. So, when the plan invests in a mutual fund, they're getting various SEC mandated disclosures. When they invest in a collective trust, they're getting different sets of disclosures determined largely by banking laws. And there's insurance has its own set of disclosures depending on the products and so forth.

So, the ERISA plan fiduciaries have to take all of that into account and make those plan level fiduciary decisions. And the onus legally is on those fiduciaries to ask the right questions to gather the necessary information. And if they can't understand what they're investing in, they need to pass on it regardless of whether that particular product made the appropriate disclosures by its regulator. That's not the determining factor for the ERISA plan fiduciary to fulfill his or her obligations to evaluate it.

So, that's going on at the plan level. As you referenced at the participant level, in a 401(k) the plan fiduciaries pick the menu and the participants pick how to allocate their own contributions to the investments available on the menu. And the labor department has put out some very specific guidance that is both under what's called 404(c) and what's called 404(a)(5). And saying those two phrases is why ERISA lawyers are not popular at parties.

Pete Driscoll:

[inaudible 01:49:07]

Bradford Campbell:

That's clear and easy for everyone to understand. Essentially, the distinction the law is made is if I'm a participant and if my plan is structured the right way, giving me independent control, and if I've received the right disclosures that let me exercise that independent control, then I'm responsible for my own investment decisions. The plan is always responsible for the menu, but I'm responsible for how I use the menu and disclosure is a key part of that.

So, the 404(c) disclosures, which provide that independent control and the 404(a)(5) disclosures, which specify what participants have to get on a quarterly and other periodic basis, lay out the information that participants see. And Jane, I think that you did a great job of summarizing some of those key elements. In fact, DOL has tried to simplify those disclosures. So, there's essentially a summary chart that is intended to boil down plan information, plan investment information to some key data points.

So, it's not intended to be a large volume of disclosure, although more information is available if a participant requests it. But it's intended and was designed to provide participants with useful core information. So, there's these very different things going on and how private markets will fit into that. Really, you will have a uniform participant experience because of the way the regulations are designed, but you'll have a very different plan sponsor experience as they evaluate which investments to select.

Jane Kirkland:

And this concept of layered disclosures is really important to enable the investors to be able to see in a snapshot, some of the key aspects of a fund, performance fees, et cetera. But then, the disclosure should always be designed so that someone who wants more detail or someone who wants to understand, well, why did this equity fund perform this way? And why did this equity fund perform differently? There should then be information at a lower level that explains market conditions or explains how the specific portfolio might have driven different performance.

Pete Driscoll:

And one thing to add that I didn't add earlier is just similar to the ERISA area, there's fiduciary obligations on the security side by the investment advisor to its client, which is the trust. You have a mutual fund board, board of trustees. They have a duty to act in the best interest of the trust, and then you have obligations to the investing shareholders and investors in those mutual funds. So...

Bradford Campbell:

Yeah, I like to put it that ERISA is where all the rivers of regulation flow together because they can invest in all the products and everyone who is providing the products or advising plans has to comply not just with ERISA, but with their own regulators. So, you end up with dual or even triple regulation of the same transaction by multiple federal and state regulators.

Pete Driscoll:

And multiple duties to the ultimate investor.

Bradford Campbell:

Yup.

Pete Driscoll:

Great. Okay. So, I'm going to switch gears a little bit and go to James, Angela, and Marc again. We've recently seen a couple high profile, private credit, I'll call them failures. And I think it's safe to say that they've been alleged fraudulent schemes. I know of at least one where federal indictments were issued. And so, you look at that and I think those fact patterns are... They're pretty ugly, pretty egregious, and hopefully isolated. But I think it's a good lead-in just because I think those examples are being used by some that are opposed to the expansion or concerned about the expansion of alternatives being offered in the retail space.

And so, I guess with that, are there information gaps today for investors, performance metrics, fees, valuations, risk reporting. Is there anything there that needs to be shored up? Not just in relation to the two instances I mentioned because they truly were isolated and fraudulent or alleged fraudulent, but is there areas that we can shore up? So, James Ryder, I'm going to go to you first, if you don't mind.

James Ryder:

Yeah. No, and I know I've talked a fair bit already today, so I'll try to be brief. But I look at this question...

Pete Driscoll:

And you're with State Street.

James Ryder:

Yes, with State Street. Sorry, I'll reintroduce. State Street Investment Management, defined contribution. The way we look at this purely through a retirement lens is there absolutely is an information gap. And what we found is we go and talk to plan sponsors and even intermediaries to some degree. Everybody is starting from a very different place in terms of the conversation about private markets.

So, if you're talking to a larger plan sponsor, for example, that has had exposure to private markets on the pension side for years, they have these managers numbered, they can call them and they can get that information. It goes back to what Brian said earlier. This information is available. It's a matter of how you go about getting it.

So, I think for those who are further along in that conversation and are already familiar with these strategies and the nuances of them, the conversation quickly moves from, "Okay, what are we talking about here? To what are the nuances of the defined contribution ecosystem? How is liquidity going to be handled? How is valuation going to be handled? What does the fee structure look like and how is that applied to a daily traded and daily valued world?"

On the other end of the spectrum, there are plan sponsors that this is the first time having this conversation. So, I think some of the high-level concerns when we think about the skepticism, I think skepticism is generally healthy, due diligence is very important. Before those plan sponsors that don't have that history, you are starting at a much, much higher level. Thinking about, first of all, we're not proposing standalone investment options where participants cannot give all of their money to illiquid underlying holdings. Talking about modest allocations within professionally managed accounts that we've already talked about.

But the next question is, "What questions should I be asking? Where do I get that information?" And I think that's where we're behind a little bit. Or you think about the target date universe broadly in public markets, we have a 20-year headstart in terms of what are the sources of information, what are the appropriate benchmarks? And Andrew and I were just talking about this. There's still no perfect benchmark in target date world, but there's an established process for evaluating benchmarking peer relative or otherwise and really understanding what are the important questions, what is the information that I need and where to go get it? Where are the third-party data providers that have it? We're not there yet in private markets.

So, I think that there is an information gap in terms of that end user where those who are familiar have a pretty good sense of what the questions are, where they need to go, those who are just getting familiarized are really starting from square one. So, I think that's something that we just have to be aware of as we bring this conversation to plan sponsors and to a lesser degree in mediaries who have varying degrees of exposure to private markets on the wealth side or whatever it may be, but it is a very different conversation for different audiences.

Pete Driscoll:

Angela, anything?

Angela Antonelli:

Yeah. So, I'm Angela Antonelli, research professor at Georgetown University, actually listing all the people in this room. I'm actually the one person who's not a practitioner, but a policy person and an academic. And we've done a series of pieces at Georgetown at our center making the case for the inclusion of private market assets and defined contribution plans. The reality is these assets have been

available to high-net-worth individuals. They've been available to divide benefit plans for a long time and in proportions that have not been insignificant, upwards 20%, 30%, 40%.

So, the question becomes, why shouldn't the average 401(k) defined contribution plan participant also have the access to and the benefits from the inclusion of greater diversification and the inclusion of private market assets in their defined contribution investments? And I think part of the, probably one of the greatest challenges, I don't think we have to make the case that it's worthwhile to in fact include these private market assets and define contribution plans, and that it can in fact be done prudently and the earlier discussions around how the industry is very well positioned and innovative and thoughtful about issues around liquidity, pricing, valuation, and all of these things.

But I think the bigger issue that we face is really around this discussion around data and transparency and communication and education. And I think there's a tremendous amount of work that needs to be done in this space. I think James set it up perfectly in terms of describing that we have a lot of experience with public markets and the kinds of data and disclosures that's done. And now, in the context of the inclusion of private markets into defined contribution plans, we do have this challenge of being able to effectively communicate the value proposition for that and what it means for investors, for both plan sponsors and for plan participants.

As someone who is in the policy and academic world, I think one of the frustrations, and it's not unique to this discussion around private markets, is from my perspective, we have tons of data. It's fragmented. It's siloed. It's a mess. And we could do a much better job in corralling that data in a much more organized and communicated in a much more effective, plain English, simplistic way.

And so, I understand disclosures are done in a certain way and we talk about the problems around litigation and maybe that is part of the reason why they're designed the way they are. But I think perhaps if we are more willing to corral the information, distill it, communicate some of these concepts in more simple ways that we may find that actually that helps to mitigate litigation risk, not increase litigation risk. And we just need to do much more with respect to helping our plan sponsors.

At the end of the day, we can sit around and talk about the design of investment products and the inclusion of private market assets. Plan sponsors are not buying it. And so, there's no demand. And if we don't work on the demand side of this equation and help plan sponsors understand that they can include these, and as fiduciaries, we will give them the guardrails and the guidelines and the information so they can exercise their due diligence and prudently assess the inclusion of private market assets, we need to accomplish that. And that's at the end of the day, plan sponsors being willing to consider these types of investments and the inclusion of private market assets.

And at the same time, their ability, if we do a good job with them, downstream to communicate with plan participants and have plan participants be willing to also embrace these types of products. At the end of

the day, the work that we've done is focused on a very simplistic inclusion of very modest amounts of these private market assets in target date funds and defined contribution plans.

And again, I think there's work that it's... Again, I think we have a tremendous amount of data that's available and it's just a question of the ways that we can... I think Marc, you mentioned on private credit. You ask someone about private credit, they can define it six different types of ways. Well, that's kind of a problem, right?

So, how do we begin to break this down and work on the types of disclosures and information and education that we're offering to plan sponsors and to plan participants and to do that much more effectively? And hopefully, the guidance that DOL can provide will help offer us some more effective roadmap for doing that.

Marc Pinto:

Yeah. I think it's coming up with that framework, which I think is difficult in the sense that, and you mentioned this as well, it's a very bespoke market. In the public fixed income market, you've got five-year, a 10-year, a 30-year bond, and it's very well understood and you then can trade that very easily and that's why that market has that framework.

The private credit market is resistant in many respects to having a consistent framework like that because that's their secret sauce. We can provide you bespoke lending to your needs. You want a 12 non-call seven, a 15 non-call three, we'll do that for you. And I think that makes it challenging to come up with a framework for valuation, for secondary trading at some point in time, and even just general disclosure.

We've been rating public bonds for 125 years. We've been rating private debt for only a few years. And so, that, to your point, James, that accumulation of knowledge and that getting comfortable with what is out there in a market that continues to evolve. We see deals presented to us from people around this table on a daily basis that as a credit analyst who's been doing this for four decades still blow my mind, you're going to do this kind of a structure. It's sort of, okay, the complexity, the illiquidity, the risk, and then how the risks are mitigated within the context of a fund are just so innovative and we're not done with this period of evolution. I think we almost need to get through this period of evolution before we can all coalesce around a framework.

The other point I just wanted to make is around, I wrote down here, the known unknowns. This market has not been tested. It really hasn't been tested. It's been 2%, 3%, 4%, 5% of insurance company portfolios in the past or high net worth individuals. It's now 10%, 15%, 20%, 25%, 30%, 35% of some insurance companies in the US, life insurance companies have 35% exposure on average to private assets. This market has been quizzed, but it hasn't been tested. And I think we need to go through that and see how we believe, how the industry believes they've dealt with illiquidity issues, how they've dealt

with the complexity and how the waterfall will trickle in periods of severe dislocation. Then, I think we can get more comfortable with this being a larger portion of people's portfolios.

Pete Driscoll:

Anyone else? All right. James Hannigan, I'm going to come to you. As James Ryder had raised, oftentimes, there's a lot of, particularly when there's research involved, a lot of communications, a lot of access to non-public information, confidential information as part of the process to evaluate an investment. I guess, how do you balance the transparency with that confidentiality? And you may have folks on your team on having board slots in different PortCos, you may be part of creditor committees. How are you balancing that? If it's a public fund, you may have a public board saying, "We want as much information as we can." But at the same time, you're managing side by side and a co-invest and may have limits on what you can tell out someone outside the firm. So, how do you handle that?

James Hannigan:

Yeah, sure. And hello, everybody. I'm James Hannigan and I lead structuring for Apollo for both the wealth and retirement products. Pete, well said, at the individual asset level, private company, there can be contractual or regulatory limits on our ability to potentially share certain information. I would, at the same time though, recognize, as has been said throughout the session here already, that doesn't mean there's zero information. There is a body of information that is already disclosed to investors, to rating agencies, to the market. And I think that continues to evolve and expand.

And if we think about the longstanding partnership that we've had with investors of all different types to meet their regulatory needs or diligence needs, I think it has been a successful practice and history of making sure that, as Brad describes, that fiduciary that needs all relevant information, that we can certainly meet that bar. The fact that assets sit on regulated balance sheets of insurance companies, of interval funds, where there may be a requirement that a schedule of investments has to include all assets, the security description, the sector, the price, the acquisition costs.

All of that is just adding over time to the body of information that's out there about these assets. The developing secondary market is another positive trend in terms of putting more and more information out there. So, while you're right and your premise is right that at some point, we may need to put institutional allocators like James Ryder or Andrew to give them an NDA to be able to fully share certain information. I think we've been able to navigate all of that and certainly make sure that everybody has enough transparency to make informed investment decisions.

Pete Driscoll:

Yeah. It's a different angle on the things we've been talking about because we're talking about what aren't we getting in getting as much data as we can to make an informed decision, but it's also balancing some of the challenges that you have. And it sounds like you all are all over.

James Hannigan:

We try to, yeah.

Brian Garfield:

I would also just ask a general question that people could have their own answer, but it's what information are we talking about? And then, reflect on the information that we get, that all of us get in a public...

PART 4 OF 5 ENDS [02:08:04]

Brian Garfield:

... On the information that we get, that all of us get in a public company right now. What information are we actually getting, and how frequently are we getting it? And the question I have for everyone to think about is, are we actually thinking about accelerating the amount of information, or are we implying that we should accelerate the amount of information in the private markets is actually faster than the information that's reported in the public markets right now on a particular asset? And that's just something to reflect on. Anybody want to answer it?

Marc Pinto:

I mean, I would say-

Pete Driscoll:

Probably varies.

Marc Pinto:

It varies. I would say one thing, which goes back to the earlier conversation around liquidity, particularly in the context of 401(k) fund. Investors in 401(k)s are used to daily liquidity for everything, whether they use it or not. And this asset class poses some different attributes that I think, to your point, Angela, education is going to be required, and how the sponsor's going to deal with it either at the fund level. But I think this is an aspect to this market that's different. You're not getting minute-by-minute valuations or second-by-second valuations. You're not getting the same amount of liquidity. There is an illiquidity premium that

you're going to get, but that is not costless. And I think that's an aspect to transparency that would have to be addressed, particularly in the context of a 401(k).

Angela Antonelli:

It's not costless, but presumably there's also that benefit.

Marc Pinto:

Exactly.

Angela Antonelli:

And increased returns that you're paying for that. So, I think it is. It's really about educating and understanding that yes, you're used to daily liquidity, but the inclusion of these alternative asset classes-

Marc Pinto:

[inaudible 02:10:00].

Angela Antonelli:

There's a trade off. Right. And that's okay. And you're not losing anything. Net net you're going to be better off.

Marc Pinto:

But that's different from what you're used to today. I mean, the reason that target date fund was developed was because when people given the opportunity to manage their own money, they thought, "I don't know what to do." And they threw it into money market funds until employers said, "Hey, that's not good for you. You're going to work for our company for 10, 20, 30 years, and you're going to have a money market return at the end of this, and that's not going to help you very well." So, that's why target date funds, which was sort of the halfway house between defined benefit and defined contribution, but education.

Pete Driscoll:

All right. Brian, I'm going to come back to you. We heard earlier about some information, potential gaps that may be out there. How can technology improve real-time visibility into fund performance and underlying assets?

Brian Garfield:

So, I think it has to do a little bit about with the speed of the availability of the information is I believe how it could influence. And then also how that collection process of data can then accelerate the speed of the information that's coming through that technology that's generating that information. I think that's how I would kind of corner it, but I think the key is getting the data. So, just to give you an idea, so 30% of what we value today we do more frequently than quarterly. It just gives you a sense of the landscape of availability of information that then can then go into a technology tool to then actually report and provide information out of. So, as we see reporting and requirements accelerate, then we're going to have more information and then the technology can influence the speed at which we could produce data quickly. That's how at least I feel that technology can influence things.

And then you'll be able to benchmark and marry things up a bit more effectively than you can today. But again, going about it in a more expeditious manner with the technology acting as a tool, but the underlying core information being the key to everything. It's like you have this really, you could say you have this great technology, let's call it a Porsche, but if there's no gas or there's no power charger to charge the car, it's going nowhere. So, for the technology to be effective, the data's got to have to drive that, drive it forward.

Pete Driscoll:

It's interesting that several years ago at the SEC, both Natasha and I worked a lot on alternative data initiatives there and seeing how investment managers were acquiring that data and using it and what that data was. And whether it was legal data or whether it was purchasing credit card information, spend foot traffic through satellites, things like that, as opposed to what was infamously put in a TV show where they bag a cash to a shipping clerk, which would be illegal, just to be clear. But it sounds like, and to your point, which I love, it's about capturing the data to make those decisions, and everybody's clamoring for more and more data. And so, I'd be curious to anybody else in terms of how you all are using data and technology to help make decisions. I mean, everybody's using technology to help make decisions, but it's something that, anything to add.

Marc Pinto:

And even just in the private credit world, and Brian and I were talking about this, we have something called an investment analyzer that we use for the BDC data. There's a lot of crossholdings of the underlying loans, and you can look and see how they're valued quarter to quarter during stable periods, during unstable periods. So again, there is information out there, but it's surprising to me when we started building this, I said, "Oh, somebody else must have built this already, and I just haven't seen it." So we can use the new technology to get at the information where we have it. And again, BDCs is just one part of the private credit market, but it's where you have a lot of data and you can analyze it and get a lot of good insights out of it.

Pete Driscoll:

And see spreads between the struck NAV and the market price.

Marc Pinto:

Exactly.

Brian Garfield:

And to that point, so back 10 years ago, you'd have to go into the filing, search the filing, look for the name, and then be like, "Okay, I'm done with X manager, now I'm going to go to Y manager." And then the SEC website actually came up with a search function, so then you can look up the asset name and then you were kind of doing it that way. And now there's data providers that are adding information and putting it in tools and then you can go search yourself. So, that's what I mean by we're building on it and it's becoming more and more available.

And then the other thing I think is really interesting. So, at Lincoln every quarter we have a webinar. There's one that's in Europe and one in the U.S., and the idea is to provide information about the operating metrics that we're seeing across the portfolio companies that we value. And that's another data pool that we have brought to the market. And I think it's quite interesting, because you could look at how revenue is performing across the, call it the private equity backed assets we value, the EBITDA, EBITDA adjustments, things on the credit side like PIC that are interesting and spoken a lot about now. And all that information, I think helps, because I think what people are really clamoring for are benchmarks. What is, I'm doing X, what is everyone else doing is what is what everyone's looking for. And that's one of the things that we are here to help solve.

Pete Driscoll:

And I think one thing that was implicit in what I was talking about is the SEC is using it. The SEC is focused. They're gathering more and more data. So, your regulators are moving in that direction. I'm sure DOL is doing the same thing in terms of capturing different data.

Andrew Jacobs Van Merlen:

Just listening to this conversation, to me, there seems to be some issues on breadth, on depth of information, on consistency. But if you add to those three facets, you can't get the frequency really right. So, we just talked about defined contribution wanting daily type information. And so, you're trying to add speed to a problem that's non-standard. And it feels like we need to start from its root to start with what is the core data points that we need, standardize those before we can get to speed and really get that integrate into benchmarks and other things that work in a daily value world.

Bradford Campbell:

And the other thing that keeps popping to me as I hear this conversation is I just want to reiterate that we have different audiences for this data. I think DOL, and I'm biased, because we started this while I was there and it was finished in the Obama administration, but the participant disclosures were shrunk on purpose to facilitate participant understanding. And I think, and then the SEC has gone that direction with some of its recent regulations. That's a different audience than what we're talking about here, which is getting the broader based information necessary for financial fiduciaries and other actual investment managers to make decisions.

And I don't want to screw up the participant side by complicating disclosures. And one area that I think participant disclosure still struggle with is also benchmarking. When I get that little chart on my ... All of us here who are in a 401(k) plan should be getting annually, at least access online to a chart, and it'll have a benchmark for each of those investments, but it's often really not that useful a benchmark. And frankly, we weren't sure how to solve that problem when that regulation came out. I think they still struggle with that. And that might be something we hear more about in the upcoming regulations.

Pete Driscoll:

That's a great point.

Jane Kirkland:

And it's challenging, because these assets can play a different role in people's portfolios. In the short term, I think most people are buying these multi-strategy products, whether they're target date funds or others, where they're not choosing the private asset directly, it's blended. But one of the things that we're going to have to think about how to communicate to the end investor is, how do you understand what role these assets play? So, if private equity in a given year maybe doesn't perform as well as public equity, does that mean it was a bad investment, or no, is it good because it's uncorrelated? And getting people to understand the value, the risk reduction value of an uncorrelated asset when they're just comparing against benchmarks is challenging.

Bradford Campbell:

That was actually referenced in some recent ERISA litigation in the use of private markets and hedge funds. The communications with participants indicated that part of the reason we're adopting this is to limit downside risk in certain markets. And then when markets went up and those investments underperformed and litigated, so to speak, not in reality, they did what they were intended to do. Then the litigation commenced and the Ninth Circuit recently noted that this participant disclosure was material, or at least relevant in their analysis of what was told to participants, and was this functioning as intended?

Pete Driscoll:

All right. That was a great discussion. Thank you all. So, trigger to plans the role of third-party providers and consultants in shaping the information landscape for plan sponsors. So, we have a number of folks teed up for this one. Jane, may I start with you on this one?

Jane Kirkland:

Yes. Yeah, certainly third-party service providers and consultants are deeply involved in serving fund sponsors, helping them understand how to compare different investment options that are available to them. They have thousands, probably tens of thousands of options, and they're trying to get it to a well-curated menu of maybe 20 options at most for their plan. So, I think they play a critical role in trying to get information onto a common basis for purposes of comparison. I think they do play a key role in developing custom benchmarks so that people are comparing performance to an appropriate benchmark. I actually think some of the back office service providers even play a role in trying to standardize the information, get reference data into a format where it can be processed in an efficient way. And I think some of that reference data flows through to more downstream parts of the investment management and evaluation process. So, they play a critical role.

Pete Driscoll:

Angela, anything you want to add on this?

Angela Antonelli:

Oh gosh. Okay. Where to start? So yeah, I mean, Jane just perfectly outlines some of the roles that the consultants and third-party providers, data providers can play. So, at a high level, and I've said this in our reports at Georgetown, when we look at the inclusion of private market assets and defined contribution plans, and Brad touched on this when he went over the regulatory framework as well, plan sponsors as fiduciaries need to be able to exercise their responsibilities. And they need to feel like they have the ability to do that. And if they don't, then don't act. Don't step into that space. So, do it if you can do it.

Bradford Campbell:

Or seek advice.

Angela Antonelli:

Or seek advice from experts.

Bradford Campbell:

That probably technically is the better answer.

Angela Antonelli:

Right. Exactly. And that's again, a role that they can play. So, adding private market assets in this context is a tool in the toolbox, and I think it's good to have as many tools in that toolbox. Doesn't mean that everybody needs to use that tool. No. If you feel as a fiduciary that you can do this responsibly and you can do your due diligence, great. And I say that all as a setup to, even in the context of public plans, and there aren't consultants in this room, and I work with consultants, so I'm probably going to annoy any consultants that might be listening in. They definitely play an important critical role, but I think at the end of the day too I'm also always concerned about the employer as the plan sponsor and their education and their boards that oversee these investments and what we can continue to do to ... And again, I keep coming back to data information and education and what can we do with plan sponsors as fiduciaries to help them feel comfortable.

And yes, you can turn to these outside experts to help you do that, and should continue to do that, but also continue to strengthen the ability of plan sponsors in exercising their fiduciary roles to have more and better information and training. And I just know that I've certainly heard from and worked with public plan executives that they say how much they rely on outside consultants to help guide them along the way. And they continually look for that internal education, information, guidance, and that could be very beneficial to them. I say all of that, because I think there's a great balance. Sure. We want to have this critical role that outside third parties and consultants play. It's an enormous role and it's an important one. It does the kinds of things that Jane outlined. At the same time, I'm always coming back to these plan sponsors and then even downstream plan participants on how we continue to do a better job to provide education and information and tools to help them exercise that fiduciary responsibility.

So, we want to give them these guidelines and these guardrails, but we also want to continue as organizations and resources and tools to help them be better fiduciaries, if that makes sense? That's my piece.

Pete Driscoll:

James, anything to add?

James Ryder:

That was a really good piece.

Pete Driscoll:

It was.

James Ryder:

What I would say, just going back to what I mentioned earlier, just in terms of the framework for evaluation and how that's moved forward in the public space over the last 20 years, is consultants and intermediaries have been a huge part of that, right? Just establishing that framework. And I think what's unique about DC, maybe it's not completely unique, but what's important to consider is target date funds, default solutions are very much a blend of art and science. So, there's the quantitative analysis, and that's incredibly important. And a lot of these consultants have private market research teams that, again, are very familiar with these asset classes and how they work. But there's also that retirement background, understanding the behavioral considerations, the participant communications, everything that goes into sort of administering that plan successfully.

So, I think in order to move this forward, there's layers of fiduciary oversight. There's the target date level, there's the intermediary, there's the plan sponsor. But I think having that intermediary that is able to bring together those two worlds, that really being able to go deep on the investment case, but also understand the impact for defined contribution plans and where they're coming from is critically important. Only other thing I'll mention is record keepers. They're important too. I just haven't heard them acknowledge, but it's an important consideration when you're bringing new products that have a little bit, different structures. So, helping facilitate those as well is something that's important to think about. And from a third-party data perspective, I think Brian's covered that incredibly well, but we all know how important that is.

Pete Driscoll:

Anything else on that one? Okay. Oh, please, Sara.

Sara Shean:

Sara Shean from PGIM. I might just add one comment there, which is as we think about the importance of the role of the consultants and third-party data providers and what plan sponsor fiduciaries expect of them, I do think it's important to note that as we see this space evolve so quickly, many new products coming to market in different asset classes. And even if a consultant is perfectly comfortable exercising private credit, private equity, infrastructure, real estate on the pension side, the way that the DC products are individually structured creates a separate layer of due diligence that has to be done. So, I do think we have to be very patient and give some latitude to the consultants, because their consultants or their clients as a result of the executive order and what might come out may be clamoring for information, but back to Angela's point, it's our job as an industry to help educate those consultants and get them up to speed so they can help plan sponsors make decisions. And there's going to be a time hurdle there.

Pete Driscoll:

Got it. That's a great point. Absolutely. All right. Brian and Marc, I'm going to come to you in terms of, one of the things I've been hearing just in the regulated space as more of these products, more of the funds carry illiquid products, particularly in the PE space they're worried about will they have to do daily NAVs on Portcos? And so, I think that there's some concern about how does that happen when the traditional valuation is quarterly and some monthly, depending on the asset. I guess what trends or regulatory initiatives are likely to drive greater transparency in private markets over the next five to 10 years?

Marc Pinto:

Jared, so in terms of just trends, I mean, I think the reason we're talking about this is because the investible universe has changed. Most of what people used to invest in was publicly traded debt, publicly traded equities. And as companies started to de-list and there were other ways of moving around the banking system to underwrite loans, we've now seen these private assets grow in terms of the overall investible asset. And I think it was a State Street report that I saw, something on the order of 12 to 15% of the investible assets in the world are private assets. So, plan sponsors looking for diversification, diversification the only free lunch, why would you exclude yourself from that? I think what happens, as that continues to grow and capture the interest of more and more investors, you will see more information out there.

Right now, I had mentioned earlier that a lot of the private credit ratings that we have are private. The ratings themselves are private. They're not disclosed to the general public. I could see over time that the underwriters say, "You know what? I'm happy for that to be a public rating." And we're starting to see that kind of through the back door, if you will. For example, one of the big alternative asset managers helped to underwrite a loan for a French utility company that wanted to build a big nuclear plant. They were looking for four and a half billion pounds. The banks weren't that interested in it. They weren't sure if they could get it done in the public markets. Turn of asset manager came in and said, "You know what? We'll do that. And we have a home for it, an insurance company, sovereign wealth funds, what have you."

That was publicly rated, because they took it right off of a medium term no program. So, here was a private credit transaction that was publicly rated. I think you're going to see more and more of this over time, so I think the rating agencies will play a role in this. We're guided by our clients, but I would see over time it will also allow this market to continue to grow, because I think the more it wants to hold onto the private nature of the market, the more it could potentially cap its growth, because people will say, "I'm not going to make that a major portion of my portfolio if I don't have the same amount of information that I have on the public side," because maybe that trade-off has a limit. And if the market wants to continue to grow, I think you just see the industry itself just saying, "We're going to provide more." And part of that could be public ratings.

Brian Garfield:

Yeah, so I totally agree with that. I said differently, more frequent subscription and redemption activities equals, in my opinion, greater transparency. And essentially, where's the transparency today is in ... Where's the abundance of transparency today in the marketplace is on effectively quarterly information. And now where is it moving? It's moving to more monthly information. And where are we seeing the fund structures heading towards and even some going into? Daily. So, as we kind of go down that path, that glide path, then the information presents itself and the transparency starts to present itself. So, I think transparency is immensely important. The quarterly transparency is in the eighth or ninth inning. There's a lot of transparency in that, and the daily is in the first and second inning, and then probably the X trainings as well in this baseball game. So, that's kind of how I would summarize it.

Pete Driscoll:

That's great. That's really insightful. Anyone else?

James Hannigan:

Just from a mechanical perspective, the advantage of going from monthly to daily is it can really widen the aperture. If you think about an interval fund that can be purchased because it has a daily NAV on a five-letter ticker symbol, just like a mutual fund, that makes it much easier for a financial advisor who may have hundreds, thousands of individual clients to implement one of these funds. And so, there's a big incentive, I think, from both the wealth side, the distribution side, but also the asset management side to get this right and make sure that we're all investing in building out the increased data and the infrastructure. And then once that starts to happen, you then have equity analysts like Morningstar who start saying, "Okay, well, this is a bigger portion of the community, so we need to start putting out the commentary type reports and rankings and everything." And so, it all feels very organic and helpful as we think about the next few years and where we're headed.

Pete Driscoll:

That's fantastic. It was a great observation. Okay, we got four minutes. Last question. Brad, I'm going to you first. All right. So, what best practices should plan sponsors adopt to, interpret NAV on the data that you receive?

Bradford Campbell:

Yeah. So, I would say one of the key things that this is not mandated by ERISA, but it's a common practice to adopt an investment policy statement, which is basically a blueprint for how we as a plan committee and with our advisors are going to make decisions. It's not dictating the outcome of those decisions, but it's defining the process. And for example, the 2020 DOL guidance on private markets can be incorporated into the investment policy statement to make sure that you're considering the net of fees

issues, the plan demographic issues, the valuation issues, all the things that were identified in that guidance. And so that's ... Let me just go on a tangent and say, I hate the word best practices when it comes to ERISA, because best implies there's one answer. And there's not one answer, there's a prudent process that results in an answer.

But that is, for lack of a better term, a best practice is to incorporate the guidance that we have into that fiduciary blueprint for how those decisions are made. And of course, updating that as we get new guidance, as we're anticipating throughout the course of this year.

Pete Driscoll:

James, anything else you have?

James Ryder:

I mean, I've introduced myself a few times, but I should introduce myself again that I work for an asset manager, not a plan sponsor, so it's all kind of relative here. But the way we think about it is, there's well-established tips for fiduciaries. There's processes that have long been in place for how to evaluate default solutions, target date funds, so to speak. And it really starts with an understanding of your participant base, your plan population. What is your risk tolerance? What are your objectives? What are the key risks that you're looking to solve for? Or I've said this so many times, I'm sorry, but it's a modest allocation to private markets within a broadly diversified public market portfolio. So, that's still the key point here.

So, is there an additional layer due diligence on the private market piece? Absolutely. It's just as you would with an actively managed fund under the hood or any other thing there's an additional layer of due diligence, but from a plan sponsor perspective, I think it really starts with, what is the right risk profile? What are the risks I'm looking to solve for? What do my demographics really need? And then kind of drilling in from there.

Pete Driscoll:

Got it. Angela, last word.

Angela Antonelli:

I think James said it. I mean, in terms of plan sponsors, we always say plan sponsors, I keep saying employers. This is who we're talking about. These are companies. These are people employing workers every day, trying to save for retirement. But for the plan sponsors, again, really understanding their workers, their savers, the characteristics of those and what those needs are. Assessing what your investment options are, the risks associated with all of that. They need to consider, as a fiduciary, do they

feel that they have the necessary expertise in-house, or do they need to seek that outside from outside parties in order to exercise those fiduciary responsibilities?

I think they also need to really probably don't give enough thought to, and we need to do more and better to help them understand how they can communicate more effectively downstream to their savers, to their plan participants, and to simplify that as best as possible. But I think again, if they can understand public assets versus private market assets, and why we would include private market assets, I think that can go a long way. And I think that that simplification of the information and communication, call me crazy, but maybe it could help deal with some of these litigation issues when they come up and it can be pointed to in the context of litigation.

I think there are a number of things that we can continue consultants and others who work with the consultants, who work with the employers can do a lot to continue to help educate these plan sponsors, provide them with information and data that they're looking for, responding to their questions, helping them understand why they should consider the inclusion of private market assets.

And most importantly, at the end of the day it is about improving income outcomes for those savers. We're trying to get them to live a dignified life in retirement. And so all of this is about for those workers who are able to save for their retirement to make sure that one of those components is the growth of those assets over time so that ultimately at the time of retirement they can convert that into income successfully and live a more dignified life. So, we also have to keep our eye on the prize and what this is all about at the end of the day.

Pete Driscoll:

Well, great. Well, we're at time. I just want to first thank SIFMA for putting this on. Great job, Lindsey, Lisa, Kevin, Ray, all the folks that made this happen from a tech perspective, and Ken Benson for hosting us. Also, kudos to SIFMA for putting together just a terrific lineup of speakers. You guys were amazing, and very transparent, no pun intended, but you guys did a great job. And so, I thank you all and SIFMA especially, and it'll be an interesting road ahead just over the next several months to see what happens. So great job, everyone.

Jane Kirkland:

Thank you.

Angela Antonelli:

Thank you.