Global Trust Company

Managing Liquidity of Private Investments: A Practical Framework

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As the retirement landscape evolves, defined contribution (DC) plans are increasingly being called upon to deliver investment outcomes that rival those historically achieved by defined benefit (DB) plans and endowments. In this context, private investments—ranging from private equity and real estate to credit and infrastructure—have emerged as compelling options due to their potential to enhance portfolio diversification and generate attractive long-term returns. Yet despite their advantages, these asset classes pose a fundamental operational challenge: they are inherently illiquid, often requiring long holding periods, uncertain capital calls, and limited redemption opportunities. This illiquidity conflicts with the traditional expectations of DC plan participants, who are accustomed to daily trading, next-day liquidity, and full transparency.

This tension has historically kept private investments largely out of reach for DC plans. However, as regulatory guidance from the U.S. Department of Labor has matured and product innovation has advanced, sponsors are increasingly exploring how to integrate alternatives while maintaining participant confidence and liquidity flexibility[1].

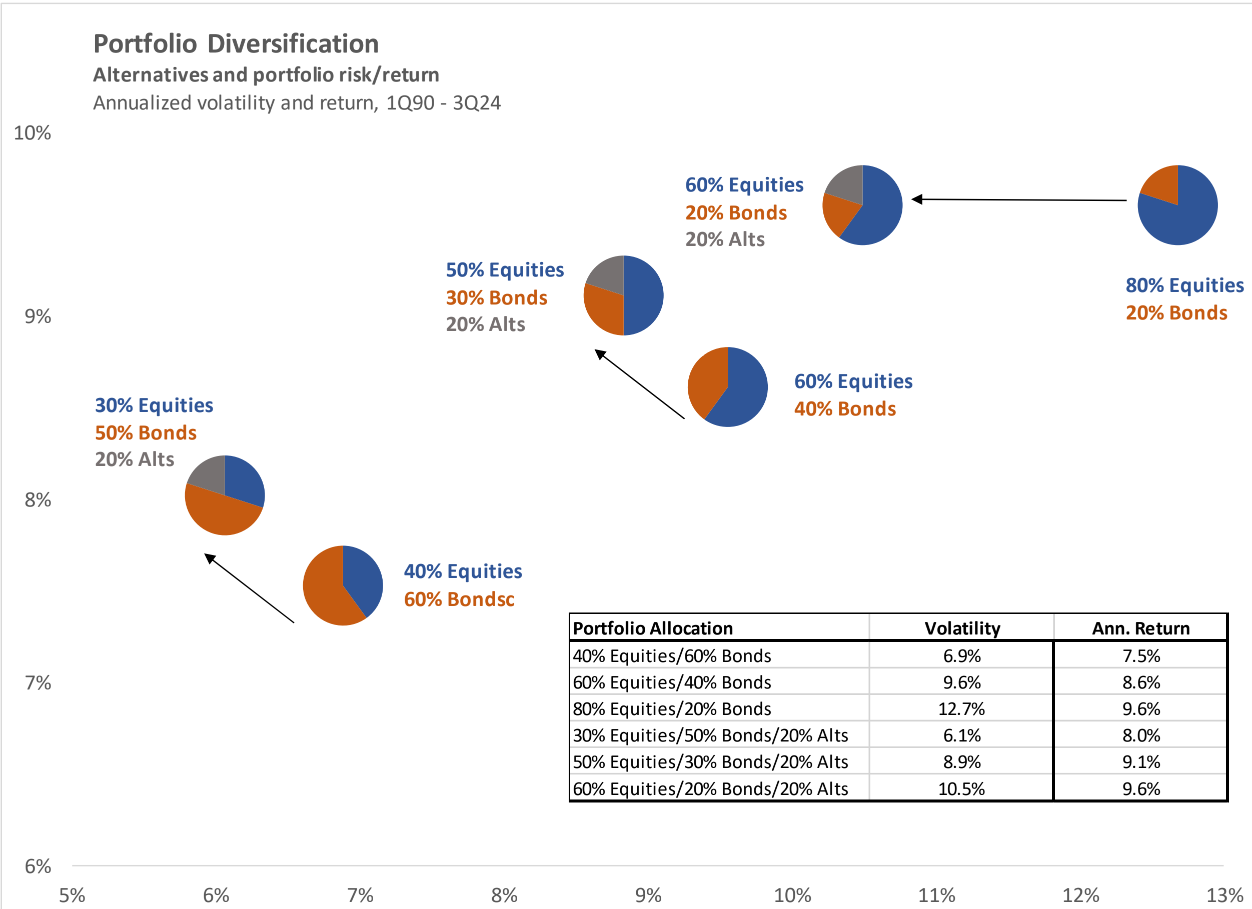
One of the first and most important considerations is understanding the nature of the liquidity challenge itself. Illiquidity in private markets is not a flaw, but a feature that allows for greater stability in valuations and a long-term investment mindset. No structure can make an illiquid asset liquid; instead, the goal must be to construct a plan architecture that accommodates illiquidity through thoughtful design. Plans must assess their participant base, cash flow patterns, and overall risk profile to determine whether and how private assets can fit into the investment lineup. For instance, plans with high employee turnover may face more liquidity pressure than those with stable, long-tenured workforces.

The process begins with participant factors. Understanding participant demographics, behavior, and transaction patterns is essential. Data such as age distribution, job tenure, income levels, and historical response to market volatility can help fiduciaries gauge the likely liquidity needs of their population. Default enrollment in target-date funds (TDFs), for example, fosters passive participant behavior and stable inflows—conditions favorable to incorporating less liquid investments.

While there is no universally optimal percentage, allocations to private assets within multi-asset portfolios typically remain modest—often under 15%—to balance the benefits of higher returns with the operational need for liquidity. Research suggests that even a modest allocation within a multi-asset portfolio can enhance returns while maintain liquidity. Many successful implementations occur within target-date or managed account structures, where plan sponsors retain discretion over asset allocation and liquidity can be managed centrally, rather than at the

[1] June 2025 Market Insight, *The Evolution of Evergreen Funds: Evergreen Funds: Unlocking Private Markets for a New Generation of Investors*

individual participant level. These structures are better suited to handle less liquid holdings, given their ability to pool participant flows and rebalance assets internally.



Portfolio Allocation	Volatility	Ann. Return
40% Equities/60% Bonds	6.9%	7.5%
60% Equities/40% Bonds	9.6%	8.6%
80% Equities/20% Bonds	12.7%	9.6%
30% Equities/50% Bonds/20% Alts	6.1%	8.0%
50% Equities/30% Bonds/20% Alts	8.9%	9.1%
60% Equities/20% Bonds/20% Alts	10.5%	9.6%

Source: JP Morgan Asset Management. Bloomberg, HFRI, NCREIF, S&P. The alternatives allocation includes hedge funds, real estate, and private equity, each receiving an equal weight

Operational elements are just as critical. Sponsors must ensure they are using private investment products that are designed to accommodate the DC environment. These may include open-end fund-of-funds, evergreen vehicles, or semi-liquid structures with scheduled redemption windows. Such products typically maintain internal liquidity buffers to accommodate withdrawals and capital calls without disrupting the broader portfolio. While these buffers may impose some opportunity cost, they offer a practical means of managing the day-to-day liquidity needs of the plan and preserving participant experience.

Plan sponsors also need to thoughtfully evaluate how best to structure their allocation by weighing the trade-offs between liquidity, diversification, and operational complexity. One option is to implement a single, multi-asset alternative solution, which offers a streamlined approach with built-in diversification but may limit flexibility in managing liquidity needs. Alternatively, sponsors can opt for a combination of funds and strategies, which allows for greater customization and liquidity control, albeit with increased complexity. At Global Trust

Company, the preferred approach often involves multi-manager solutions, particularly when liquidity considerations are a priority.

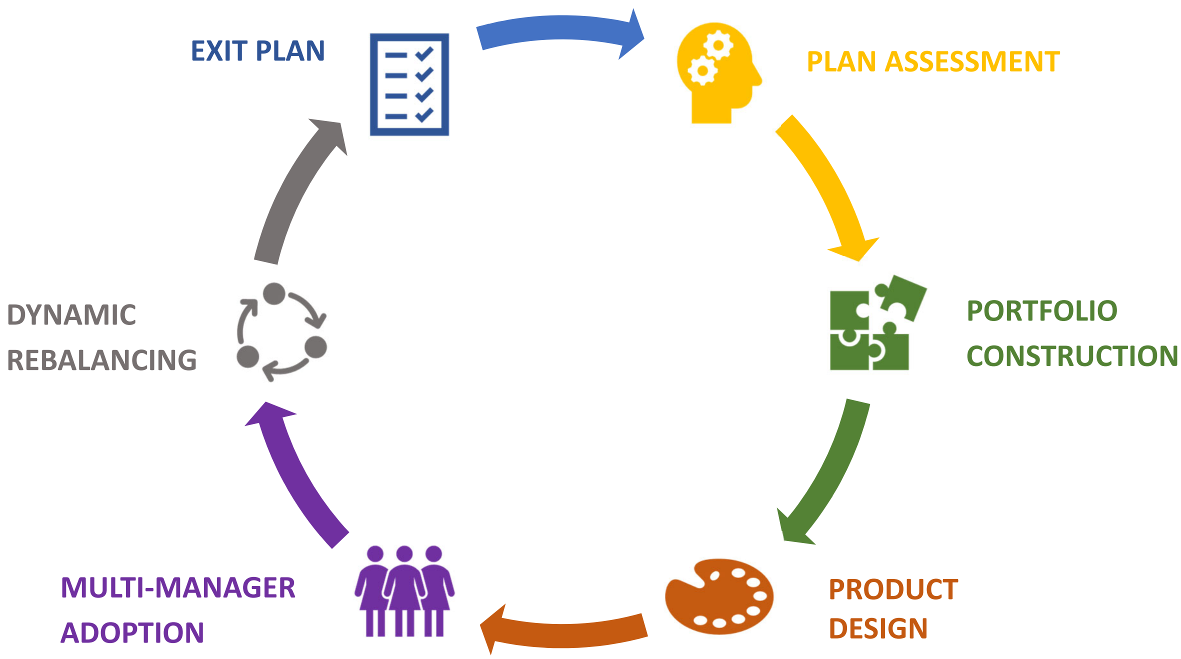
Single, Multi-Asset Alternative Solution vs Combining Multiple Funds & Strategies	
Single Fund Solution	**Multi-Fund Solution**
Pros	
Simplified Implementation	Greater Customization
Built-In Diversification	Liquidity Flexibility
Cost Efficiency	Manager Diversification
Cons	
Limited Customization	Increased Complexity
Less Transparency	Higher Operational Costs
Manager Risk	Rebalancing Needs

Beyond product design, ongoing liquidity management requires a dynamic rebalancing policy. Unlike public markets, where allocations can be adjusted daily and at low cost, private markets demand more flexibility. Alts cannot be rebalanced in real time, and capital may be drawn over months or years. For this reason, rebalancing policies should allow for wider allocation bands and more time to reach target weights. In some cases, excess contributions can be temporarily invested in liquid market proxies—such as ETFs or index funds—to maintain beta exposure while waiting for private capital to be called and deployed. Additionally, market stress testing ensures that valuation models accurately reflect private market conditions, helping plans avoid liquidity mismatches during periods of market volatility.

Exit planning is another key area that deserves careful attention. Unlike participant-level redemptions, plan-level transitions—such as moving to a new target-date provider—may involve significant operational hurdles if illiquid assets are involved. Redemptions from commingled vehicles with private components may be subject to gates, notice periods, or in-kind distributions. Sponsors must clarify their fiduciary responsibilities and understand the redemption provisions of the products they select to avoid surprises during plan changes or provider transitions.

In conclusion, the inclusion of private investments in DC plans is no longer a theoretical aspiration—it is a practical reality, provided that liquidity is managed with rigor and foresight. Through targeted participant education, prudent allocation sizing, the use of well-structured investment programs, and the establishment of flexible rebalancing and redemption policies, sponsors can deliver the return potential of private markets without compromising participant access or fiduciary integrity. The tools are in place. What remains is the thoughtful application of these frameworks to align long-term investment goals with operational realities—and ultimately, to enhance the retirement outcomes of plan participants.

A Liquidity Framework:



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