Illiquidity: A Feature, Not a Flaw

Liquidity feels reassuring, but long-term retirement savers rarely need daily access. Embracing illiquid private markets can enforce discipline, enhance diversification, and potentially deliver stronger returns than traditional public portfolios. For defined contribution investors, illiquidity can be an advantage—not a flaw.

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Liquidity is one of those investment concepts that everyone seems to agree is important. The ability to turn an asset into cash quickly, without affecting its price, offers flexibility and peace of mind. Investors like knowing they can get out if they need to, whether it's to cover an unexpected expense, rebalance their portfolio, or simply react to changing markets. But when it comes to private markets, that same feature often gets labeled as a weakness. Private equity, private credit, or real asset investments don't allow you to trade in and out at will, and that lack of access is frequently treated as a drawback. The key question is whether liquidity deserves the weight investors give it, especially for long-term savers who already have a steady income and decades before they'll need to touch their investments.

Think about why liquidity matters in the first place. Liquidity means cash is always within reach. If an emergency arises or a large purchase needs to be made, liquid investments can be sold quickly to free up funds. It also provides the ability to rebalance portfolios on short notice, whether to reduce risk, capture opportunities, or adjust to changing financial goals. It also helps with price discovery. Publicly traded assets have prices quoted daily on exchanges, so investors can always see what their holdings are worth. That transparency feels reassuring compared with illiquid investments, which may only be valued periodically. For these reasons, most investors naturally gravitate toward public markets.

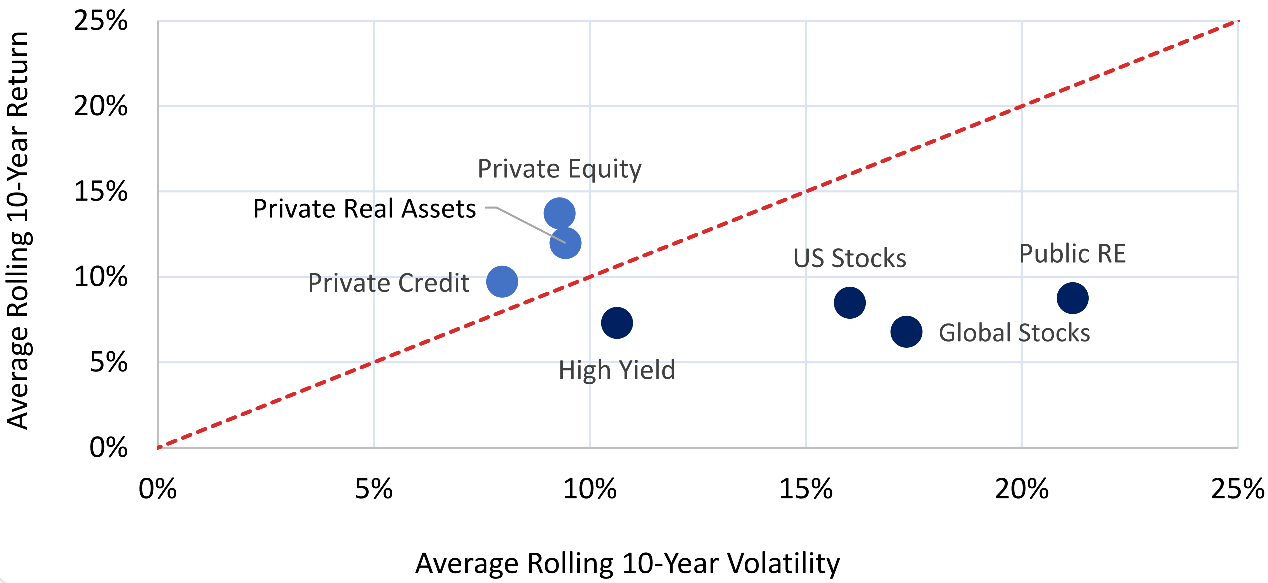
However, for many investors, constant access isn't as necessary as they think. Someone with steady income and a long horizon doesn't need to keep every dollar liquid. In fact, always having the option to sell can sometimes work against them. Highly liquid investments can tempt investors to react emotionally to market swings, selling too soon during downturns or locking in gains too early when markets rise. Illiquid assets help take that temptation away. They keep savers invested, encouraging patience and discipline. This helps explain why more investors are rethinking the traditional 60/40 split between public stocks and bonds and carving out space for private markets.

One area where this mindset shift is particularly powerful is in defined contribution retirement plans. By design, these plans encourage long-term savings, often spanning decades before participants need to access their money. That time horizon is a natural fit for private markets. Unlike individuals managing short-term liquidity needs, retirement savers benefit from the ability to let their investments compound over long stretches of time without constant trading. Adding private equity, private credit, or real assets into defined contribution structures can enhance diversification and deliver higher returns, while participants' long-term horizons help mitigate concerns about near-term access. For plan sponsors, incorporating private markets into target-date funds or other professionally managed retirement products means aligning investments more closely with participants' long-term needs, rather than overemphasizing daily liquidity that many won't require until decades later.

The opportunity cost of ignoring private markets is significant. First, there's diversification. Public equities and bonds have become increasingly correlated, reducing the benefits of holding just those two asset classes. Private investments open the door to sectors and companies that never show up on public exchanges, many of them innovative or high growth. Then there are returns. Historically, private markets have delivered superior performance and better outcomes for participants.

Risk vs. Return

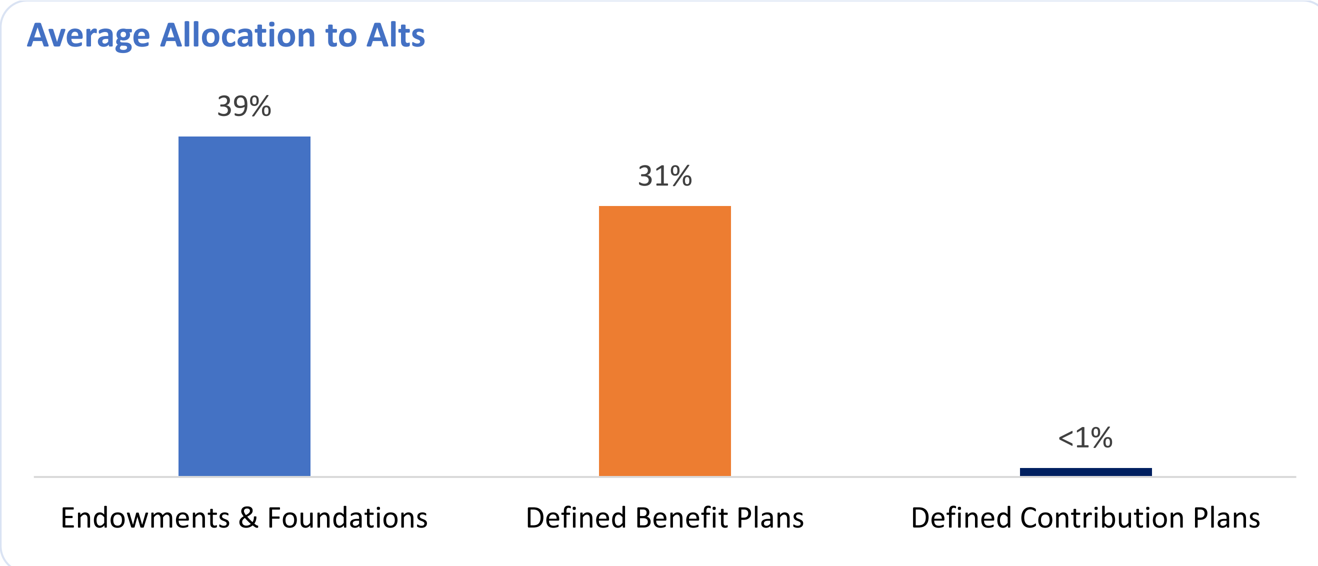
Rolling 10-Year Periods (2000-2025)



Notes: Private Debt, Equity, and Real Assets are the Pitchbook Private Capital Indexes. The indexes provided are meant to be estimates of asset class performance, hypothetically creating a return if one had access to all active funds on a capital-weighted basis. The returns are quarterly from January 2000 through March 2025. High Yield is represented by the ICE BofA HY Index. US Stocks is represented by the S&P 500. Global Stocks is represented by the MSCI AC World. Public RE is represented by the FTSE NARETI Index.

It's also worth remembering that not every private investment "locks" capital away for a decade. Private credit and buyouts often last four to seven years, real estate and venture five to ten, and secondaries can be just a few years. Evergreen funds also add another layer of flexibility[1]. Structured without a fixed end date, they allow investors to remain invested for the long term while still providing scheduled opportunities to subscribe or redeem. This ongoing structure makes them particularly well-suited for defined contribution retirement plans, where participants are investing steadily over decades and benefit from the ability to access private markets in a smoother, more participant-friendly format. In other words, investors can choose the type of illiquidity that best fits their needs. That's exactly what many institutions have been doing for decades, with allocations to private markets often exceeding 20% and, in some cases, closer to 40%.

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



Sources: US Federal Reserve, DCALTA, S&P Global Markets, ICI, Plan Sponsor, McKinsey, Ares, Blackstone

At the end of the day, liquidity has its place, but it isn't the universal necessity it's often made out to be. For those with steady finances and the ability to think long term, giving up some liquidity can open the door to better returns, more meaningful diversification, and a healthier relationship with investing. And in retirement plans, where the very structure is built around decades of saving and compounding, embracing private markets could be one of the most effective ways to improve diversification and capture long-term growth.

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