Institute for Portfolio Alternatives

DCALTA
Defined Contribution
Alternatives Association

July 22, 2019

The Honorable Preston Rutledge
Assistant Secretary
Employee Benefits Security Administration
200 Constitution Avenue, N.W.
Washington, D.C. 20210

Re: Ongoing Efforts to Diversify Defined Contribution Plan Portfolios

Dear Mr. Rutledge:

The Institute for Portfolio Alternatives ("IPA") and the Defined Contribution Alternative Association ("DCALTA") jointly submit the following comments in support of ongoing initiatives requesting that the Department of Labor ("DOL") issue guidance under ERISA that would help facilitate the inclusion of alternative asset classes as part of the professionally managed investment options offered in connection with a defined contribution plan. While IPA and DCALTA would most strongly support broad guidance that encourages plan fiduciaries to consider all asset classes and that reiterates that "fees" are only one of many components that plan fiduciaries should weigh, IPA and DCALTA believe that even narrow guidance addressing a specific product or asset class would be beneficial as it would provide a guiding light for plan fiduciaries who are considering updated solutions to help solve America's retirement crisis.

For over 30 years, the IPA has raised awareness of portfolio diversifying investments ("PDI") products among stakeholders and market participants, including investment professionals, policymakers and the investment public. We support increased access to investment strategies with low correlation to the equity markets: lifecycle real estate investment trusts ("Lifecycle REITs"), net asset value REITs ("NAV REITs"), business development companies ("BDCs"), interval funds and direct participation programs ("DPPs"). Through advocacy and industry-leading education, the IPA is committed to ensuring that all investors have access to real assets and the opportunity to effectively balance their investment portfolios.

DCALTA has focused on educating the retirement community on the benefits of including alternative investmenst within a defined contribution framework to better secure retirement outcomes for plan participants. DCALTA's membership includes stakeholders from the defined contribution community including plan sponsors, hedge funds, private equity firms, commodity trading advisors, custodians, and other supporting entities. DCALTA is dedicated to seeking solutions to help overcome bias and operational impediments that may limit the use of alternative investments within defined contribution plans

American defined contribution retirement savers today are at a disadvantage compared to prior generations of defined benefit plan retirement savers. One of the significant disadvantages defined contribution savers face is their lack of access to tools that other long-term institutional investors use to mitigate risk and maximize returns. Securities and Exchange Commission chairman Jay Clayton is correct when he says that, "retirement money in the defined-contribution plan doesn't have the same opportunities that a defined benefit plan has." As the Securities and Exchange Commission works to update its rules to make it easier to design SEC compliant products that incorporate portfolio diversifying investments, such as the ones IPA advocates for, or private equity funds or hedge funds or other investment types that DCALTA has helped support, we encourage the DOL to issue guidance providing plan fiduciaries with tools to help them analyze possible plan investments that could contain PDIs.

While there is a recognition that retirement savers would benefit from the inclusion of PDIs as an allocation inside target-date funds[1], plan fiduciaries have been slow to consider their inclusion for a variety of factors. The most significant factor is perceived litigation risk. In early June, the Supreme Court agreed to hear a case where it was alleged that plan fiduciaries violated their responsibilities to plan participants by including portfolio diversifying asset classes.[2] In short, the plaintiffs allegations are essentially that by including asset classes that other plan fiduciaries are not already including, the plan's fiduciaries must have done something wrong.

That participants would benefit from the inclusion of additional asset classes is beyond question. Studies have shown that defined benefit plans average a higher rate of return on assets than defined contribution plans.[3] One of the key differences between defined benefit plan investing and defined contribution plan investing is that defined benefit plans frequently include a significant allocation to portfolio diversifying asset classes. That performance increases and volatility decreases through the inclusion of additional low-correlated asset classes is consistent with modern portfolio theory. We have enclosed analysis that was conducted using the 10 year period January 1, 2005 through December 31, 2014 that shows how participants would have benefited had they had an allocation to portfolio diversifying asset classes.

The IPA and DCALTA encourage the DOL to issue guidance facilitating the consideration of portfolio diversifying asset classes. We look forward to working with DOL to finalize this important guidance. If the IPA may be of any assistance, please do not hesitate to contact me or Anya Coverman, IPA's Senior Vice President, Government Affiars and General Counsel, at (202) 548 – 7190, or Jonathan Epstein, DCALTA's Founder and President, at (888) 322 – 5828.

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[1] See e.g., Angela M. Antonelli, Center for Retirement Initiatives at Georgetown University, "The Evolution of Target Date Funds: Using Alternatives to Improve Retirement Plan Outcomes," June 2018.

[2] *Intel Corp. Investment Policy Committee v. Sulyma*, Docket No. 18-1116.

[3] SEI, Center for Retirement Research at Boston College, "Investment Returns: Defined Benefit vs. Defined Contribution Plans, December 2015.

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Sincerely,

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