

# A New Path Emerging: Alternatives in 401(k) Portfolios

By Joseph DaGrosa, Jr., Chairman & CEO, Axxes Capital

With its recent executive order, the White House has unlocked potential new pathways for private investments in retirement plans. For advisors and clients, the opportunities could be promising, but execution is critical.

On August 7, 2025, President Trump signed an executive order titled “Democratizing Access to Alternative Assets for 401(k) Investors.

While an executive order cannot itself change ERISA law — only Congress has that authority — it does direct the Department of Labor (DOL) and the Securities and Exchange Commission (SEC) to revisit existing guidance. Within days, the DOL rescinded its 2021 statement cautioning against alternative assets in retirement plans, signaling a major shift in regulatory posture.<sup>2</sup>

This opens a potential new path for 401(k) savers and plan sponsors to consider alternative assets such as private equity, private credit, and real estate, though fiduciaries remain bound by ERISA’s core duties of prudence and loyalty.

## Potential Upside for Investors and Advisors

The new executive order does not change the law, but it does encourage a shift toward expanding investment options for participants in 401(k)s and other employer-sponsored defined contribution plans. With the addition of alternative investments in retirement plans, investors, including those who may not normally meet the accredited investor threshold, now have the chance to take advantage of their potential benefits.

First, alternatives, such as private credit and venture capital, may offer exposure to dynamic, high-growth sectors and companies often inaccessible through public markets. As of 2023, nearly 87% of U.S. companies with more than \$100 million in revenue were privately held.<sup>3</sup> Alternatives may provide access, offering new benchmarks for return potential.

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1. “Democratizing Access to Alternative Assets for 401(k) Investors.” The White House. August 7, 2025. <https://www.whitehouse.gov/presidential-actions/2025/08/democratizing-access-to-alternative-assets-for-401k-investors/>

2. “U.S. Department of Labor Rescinds 2021 Supplemental Statement on Alternative Assets in 401(k) Plans.” U.S. Department of Labor. August 12, 2025. <https://www.dol.gov/newsroom/releases/ebsa/ebsa20250812>

Historically, an allocation of a portfolio to include private investments would have outperformed the traditional 60/40 portfolio. From January 2008 to June 2024, a private investments portfolio (consisting of 50% private equity, 25% private credit, and 25% real assets such as infrastructure and real estate) would have delivered both higher returns and lower volatility.<sup>4</sup> Even a moderate allocation of 20% to private investments would have improved both performance and risk-adjusted outcomes compared to the standard 60/40 portfolio.<sup>4</sup> Even a partial inclusion of private investments may provide a meaningful improvement in portfolio results.

**Adding Private Investments to a 60/40 Portfolio has Historically Enhanced Returns While Minimizing Volatility.<sup>5</sup>**

	60/40	Private Markets Portfolio (rebalanced)	50/30/20
<b>ANNUALIZED RETURNS</b>	7.8%	9.1%	8.1%
<b>STANDARD DEVIATION<sup>6</sup></b>	10.7%	6.9%	9.9%
<b>SHARPE RATIO<sup>7</sup></b>	0.71	1.32	0.82

Private investments also often exhibit lower correlation with public markets, offering potential cushioning during downturns. Historical analysis has shown an improved risk/return tradeoff. Adding private investments to a traditional 60/40 portfolio may enhance returns without proportionally increasing volatility, particularly through allocations to private equity, private credit, infrastructure, and real estate.

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3. Represents the most recent data available. "Solving the Private Markets Allocation Gap: From Products to Portfolio Construction." BlackRock and Partners Group. September 2024. [https://www.partnersgroup.com/~/\\_media/Files/P/Partnersgroup/Universal/news-and-views/solving-the-private-markets-allocation-gap-from-products-to-portfolio-construction.pdf](https://www.partnersgroup.com/~/_media/Files/P/Partnersgroup/Universal/news-and-views/solving-the-private-markets-allocation-gap-from-products-to-portfolio-construction.pdf)

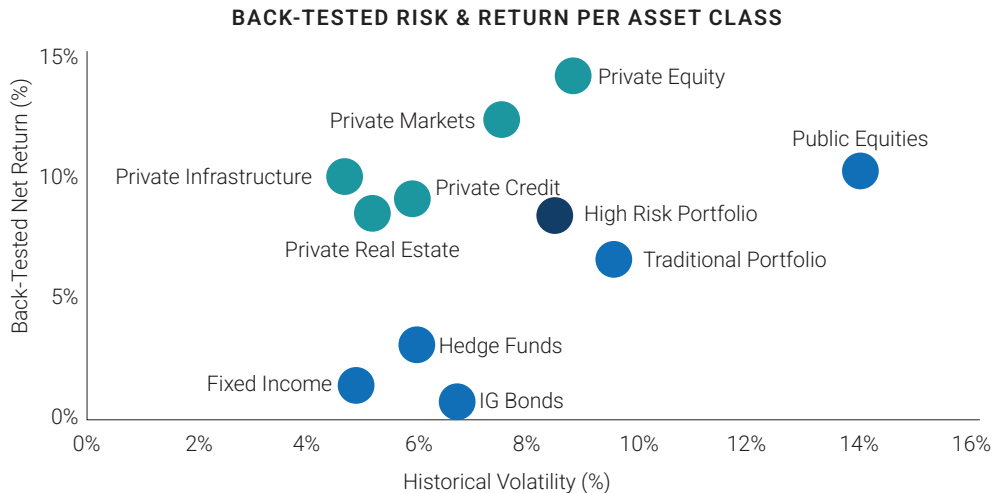
4. O'Mara, Matt. "Beyond 60/40: Private Assets in an Era of High Public Valuations." March 2025. <https://www.apollo.com/content/dam/apolloaem/documents/insights/apollo-beyond-60-40-private-assets.pdf>

5. Private markets portfolio comprises 50% private equity (as measured by Preqin Private Equity Index), 25% private credit (as measured by Preqin Private Debt Index), and 25% real assets (represented by three indices equally weighted: Preqin Natural Resources, Preqin Infrastructure, NCREIF NPI). 60/40 portfolio comprises 60% public equities (S&P 500 Index) and 40% public bonds (Bloomberg Aggregate Index). 50/30/20 portfolio comprises 50% public equity, 30% public bonds, and 20% private markets portfolio. Rebalanced portfolio was rebalanced on a quarterly basis. Sources: Bloomberg, Preqin. Data from January 2008-June 2024.

6. Standard deviation is a statistical measure of the dispersion of returns for an investment. It indicates the degree to which individual returns vary from the average (mean) return over a given period. A higher standard deviation reflects greater volatility, while a lower standard deviation indicates more consistent performance.

7. The Sharpe ratio measures the risk-adjusted performance of an investment, such as a security or portfolio. It is calculated as the difference between the investment's return and the risk-free rate, divided by the standard deviation of the investment's returns. The ratio indicates how much excess return an investor receives per unit of risk taken.

## Private Markets Have Traditionally Offered Attractive Risk/Return Features That May Complement a Traditional 60/40 Portfolio<sup>8</sup>



### Balancing Transparency, Liquidity, and Access

Overall, the ability to incorporate private investments into retirement plans represents a modernization of retirement strategies, one that may potentially benefit today's retirees and evolve to meet their current needs.

Beyond the perceived benefits, product structure is also critical in introducing private investments to defined contribution plans. One structure that seems poised to represent a practical first step is the interval fund structure. Interval funds combine the transparency and operational compatibility that fiduciaries require, along with the semi-liquid access that new participants may be more familiar with. Interval funds may also offer a defensible, ERISA-aligned pathway to introduce private equity, credit, and real assets without the potential operational hurdles of some other private investments.

### Understanding the Trade-Offs

As with any investment, private investments are not without risks. Private investments may often have more complex structures than traditional investments, and investors may need to take some time to familiarize themselves with private investments and their different forms. Certain private investments may not be appropriate for all investors or their retirement accounts. Unlike traditional stocks and bonds, many private investments are often illiquid, so investors should examine their own goals and timelines.

Investors may also need to consider required minimum distribution (RMD) rules, which may require participants to withdraw minimum amounts from their accounts. RMDs may pose liquidity challenges when retirement plans include illiquid private investments.

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8. BlackRock and Partners Group, as of September 2024. 1. The high-risk portfolio indicated in the "Back-tested risk & return per asset class" chart is the +30% high-risk portfolio shown in the "Potential impact of adding private markets" chart. Performance shown is calculated net of all fees. Data shown over a 10-year period up to December 31, 2023. Portfolio returns do not consider currency hedging. Annualized volatility refers to the annualized standard deviation of quarterly returns. Hedge fund returns based on Bloomberg Hedge Fund Index (BHEDGE Index). Other private markets returns based on Cambridge Associates quarterly net return data between December 31, 2013 and December 31, 2023. Private equity returns based on PE Buyouts, Venture Capital and Growth Equity universe. Private credit returns based on Global Subordinated Capital, Senior Debt, Credit Opportunities and Control-Oriented Distressed universe. Private infrastructure returns based on Global All Infrastructure universe. Private real estate based on Global All Real Estate universe. Public equities refers to MSCI World Equity (NDDLWI Index), fixed income refers to Bloomberg US Aggregate Bond Index (LBUSTRUU Index). Traditional portfolio assumed to consist of 60% public equities and 40% fixed income. Private markets allocation within high-risk portfolios consists of 65% Private Equity, 20% private infrastructure, 5% private credit, 5% private real estate and 5% Hedge Funds. Private markets allocation within moderate risk portfolios consists of 45% Private Equity, 17.5% private infrastructure, 25% private credit, 7.5% private real estate and 5% Hedge Funds. Management fee of 0.1% assumed for all public market asset classes except hedge funds.

Plan sponsors should also be aware that, even as guidance softens, ERISA fiduciary duties remain in place. Fiduciaries must continue to communicate any liquidity constraints, be transparent with their fee structures, and clearly demonstrate a prudent selection process.

## Why Manager Selection is Critical

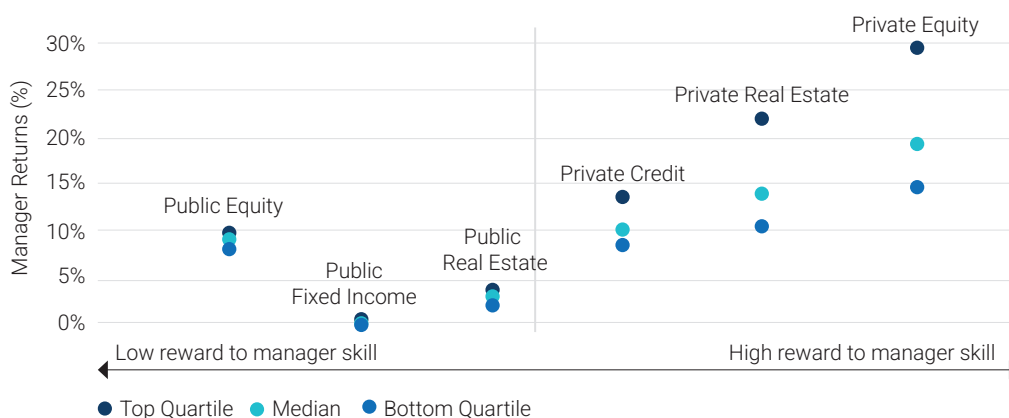
One of the biggest risks that may result from increased access to private investments could be a rise in lower-quality managers. With the growing popularity of private equity and other alternatives, more managers may seek to capitalize on the trend, even without the depth of expertise required. In addition, access and performance among private market managers can vary widely. Access to top-tier managers is often limited, with many of the best-performing funds closed to new investors or requiring substantial commitments that may not be practical for individual investors.

Even more, the dispersion in performance between top- and bottom-quartile managers is significant, meaning that outcomes can diverge sharply depending on manager selection. These dynamics underscore the importance of rigorous due diligence. Advisors and their clients may be well-served by seeking out experienced investment managers with demonstrated track records across various alternative asset classes who may navigate the nuances and operational demands of these strategies.

Beyond historical performance, potential investors could also look for operational readiness, including compliance practices, transparent valuation methodologies, robust reporting, and alignment with ERISA requirements. Manager alignment with investor interests is also vital. Look for structures that reasonably align fee incentives with long-term performance. Overall, a thoughtful, legally sound selection process may help mitigate risks and improve the likelihood of positive long-term outcomes.

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**The Range of Outcomes is Much Wider Across Private Managers than for Public Managers<sup>9</sup>**



9. Morningstar and Preqin. Morningstar returns are over a five-year period from 10/1/2018–9/31/2023 (Open-end funds); Public Equities (US Large Blend); Public Fixed Income (US Intermediate Core Bonds); Public Real Estate (US Real Estate). Preqin returns are for 2018 vintages that have last reported between 9/30/2022–9/30/2023. (North America, Closed funds): Private Equity (Buyout), Private Credit (all Private Debt strategies); Private Real Estate (Co-invest, Core, Core+, Debt, Value Added, FoF). Investments in less liquid private market strategies are by nature risky and typically involve a high degree of leverage. The returns indicated above are long-term and represent well-known asset class indices and are not meant to be predictive of the performance of any particular fund, nor are they meant to suggest that all private funds result in positive returns or would avoid loss of principal.

## Next Steps

President Trump's executive order marks the beginning of expanded opportunities in 401(k) investing. Advisors should continue to monitor updates closely. The DOL has 180 days from the order (approximately February 2026) to issue clarified guidance and potential safe harbors, but advisors do not have to wait. Begin assessing now whether your clients' retirement platforms support private investments and whether or not they may align with your clients' goals and timelines.

You may also want to begin educating your clients about both the upside potential and possible risks of private investments so that investors may make more informed decisions. Education will be of paramount importance in adopting private investments into 401(k) plans. Investors must understand the liquidity constraints, fees, and the overall role that private investments may play in a diversified portfolio. Advisors and fiduciaries must understand the mechanics of structures like interval funds. Increasing one's financial literacy or partnering with an experience manager may help. By thoughtfully integrating private investments, such as private equity, infrastructure, real estate, and more, advisors have the ability to help their clients achieve greater diversification, higher returns, and other potential benefits that were previously unavailable.

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*Joseph DaGrosa, Jr., is the chairman and CEO of Axxes Capital. Mr. DaGrosa has over 30 years of private equity experience successfully investing in multiple industries, including insurance (where he served as Co-CIO), retail, food & beverage, real estate, hospitality, healthcare, aviation, sports & entertainment. Mr. DaGrosa also serves as chairman of the private equity firm, DaGrosa Capital Partners LLC, a Miami-based private equity firm that is focused on making influential minority investments in exceptional companies located throughout the United States, Western Europe, and Latin America.*

*Axxes Capital is a private markets investment management firm committed to delivering innovative, institutionally backed investment solutions to wealth advisors and their clients. The firm seeks to partner with independent, established asset managers to offer retail investors access to private equity, credit, and other alternative strategies, all through advisor-friendly vehicles.*

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