

Department Of Labor Guidance On Private Equity In Defined Contribution Plans Enhances Potential Retirement Outcomes

Information Letter is a critical step toward modernizing defined contribution plans by giving ordinary working Americans access to the same types of historically high-performing investments as large institutions

Pantheon, a leading global private markets investor, welcomes critical new guidance from the U.S. Department of Labor (DoL) to plan sponsors that clears a path for thoughtful adoption of private equity as an allocation option within defined contribution (DC) plans.

In an Information Letter, published today, the DoL addresses an important barrier to plan sponsors looking to allocate to private equity by clarifying that, under federal law, fiduciaries can prudently incorporate private equity investments into a diversified asset allocation fund made available to participants in individual account plans, such as 401(k) plans. It also offers guidance to DC fiduciaries by providing the framework for a prudent process they should follow when considering private equity investments.

"The Information Letter is a critical step toward improving retirement outcomes at a time when research estimates 50% of households are 'at risk' of not having enough income to maintain their living standards in retirement¹," said Susan Long McAndrews, Partner and member of Pantheon's Partnership Board. "We believe private equity has an important role to play in enhancing potential retirement outcomes and today's announcement provides necessary clarity to plan sponsors that private equity can be incorporated as an allocation option under ERISA."

Data has consistently shown that including private equity in a diversified portfolio has historically improved returns². In 2019, an average of 8.7% of the assets of the 200 largest U.S. defined benefit (DB) plans (both governmental and ERISA-covered) were invested in private equity³ – and DB allocations to private investments have been growing in recent years⁴. Long-term DB plan returns have historically outperformed their DC peers by around 40 basis points annually, for reasons that include a shift toward alternative assets⁵.

¹ The Center for Retirement Research at Boston College, "[National Retirement Risk Index](#)"

² Past performance is not indicative of future results. Future performance is not guaranteed and a loss of principal may occur

³ Pension & Investments, "[Private equity, real assets make gains with funds wanting safety](#)" (February 4, 2019)

⁴ Pension & Investments, "[Growth reflects confidence in return outlook](#)" (February 10, 2020)

⁵ Cliffwater LLC, "[An Examination of State Pension Performance: 2000 to 2017](#)", (September 12, 2018)

More than 100 million U.S. citizens are covered by DC plans, with assets in excess of \$7.5 trillion⁶. Based on the strong returns the asset class has delivered in recent years^{2,5}, Pantheon believes that private equity strategies have the potential to address the performance delta between DB and DC plans and merit consideration as a viable investment option by plan sponsors. They could also help sponsors to build well-diversified investment portfolios, given the long-term trend of shrinking public markets that has seen the number of publicly traded companies fall by around 50% since 1996⁷.

“Many people understand the dynamics of the shrinking public markets, and that exposure to small and mid-sized companies – especially technology companies experiencing significant growth – is often only available through private investments,” said Ms. Long McAndrews.

“Less understood is the performance gap. In our view, retirees really can’t afford to leave 40 basis points annually on the table over a 35-year investment horizon. We believe the Department’s action today is an important step to address this and we look forward to working with plan sponsors to offer millions of ordinary working Americans the potential for a more secure retirement².”

Pantheon has been at the forefront of advocating for greater parity between the investment options available to DB and DC plan sponsors. Since 2017 the firm has played a leading role in seeking new guidance from the DoL, alongside fellow global private markets investor Partners Group and a broad coalition of investor-oriented partners.

Pantheon pioneered its own U.S. DC offering in 2013, becoming the first private markets investment group to create a product specifically designed to be included in U.S. DC plans. It has features such as daily pricing and liquidity and is intended to be incorporated in structures such as target-date, target-risk or balanced funds offered by professionally managed DC plans. In 2014 Pantheon similarly pioneered a product tailored for the private wealth and retail markets.

Doug Keller, Pantheon’s Head of Private Wealth and Defined Contribution, said: “DC sponsors have historically required product features that are not typically available in traditional private fund structures, like perpetual offering periods, daily pricing transparency, daily liquidity and an organized subscription and liquidity process.

“We have already solved for many of these technical hurdles that have prevented traditional private funds from being offered in DC plans. The Information Letter published today validates that work and provides a clear framework for DC plan fiduciaries that we believe will be welcomed by the industry.”

***Ends

⁶ Vanguard, “[How America Saves 2019, Vanguard 2018 defined contribution plan data](#)”, (June 11, 2019)

⁷ Department of Treasury, “[A Financial System that Creates Opportunities: Capital Markets](#)”, (October 2, 2017)

Notes to Editors

For further information, please contact:

Pantheon

Amanda McCrystal, Global Head of Marketing and Communications

Tel: +44 20 3356 1718 | C: +44 7557 233771 | Email: amanda.mccrystal@pantheon.com

Ashley Wassall, Global Marketing and Communications

Tel: +44 20 3356 1763 | C: +44 7776 778 620 | Email: Ashley.wassall@pantheon.com

About Pantheon

Pantheon Group* ("Pantheon") is a leading global private equity, infrastructure, real assets and debt fund investor that currently invests on behalf of over 625 investors, including public and private pension plans, insurance companies, endowments and foundations. Founded in 1982, Pantheon has developed an established reputation in primary, co-investment and secondary private asset solutions across all stages and geographies. Our investment solutions include customized separate account programs, regional primary fund programs, secondaries, co-investment, infrastructure and real assets programs. Pantheon has four decades' experience of investing in private markets.

As at December 31st, 2019 Pantheon had \$49.1 billion assets under management** and the firm currently has around 330 employees located across its offices in London, San Francisco, New York, Hong Kong, Seoul***, Bogotá***, Tokyo and Dublin. Its global workforce includes 99 investment professionals.

Pantheon is majority-owned by Affiliated Managers Group Inc. ("AMG"), alongside senior members of the Pantheon team. AMG is a NYSE-listed global asset management company with equity investments in leading boutique investment management firms. The ownership structure, with Pantheon management owning a meaningful share of the equity in the business, provides a framework for long-term succession and enables Pantheon management to continue to direct the firm's day-to-day operations.

Pantheon Group refers to the subsidiaries and subsidiary undertakings of Pantheon Ventures Inc. and AMG Plymouth UK Holdings Limited and includes operating entities principally based in the US (San Francisco and New York), UK (London), Hong Kong, Guernsey, Tokyo and Dublin. Pantheon Ventures Inc. and Pantheon Ventures (US) LP are registered as investment advisors with the U.S. Securities and Exchange Commission ("SEC"); Pantheon Securities, LLC. is a broker dealer registered with the SEC and is a member of the Financial Industry Regulatory Authority ("FINRA"). Pantheon Ventures (UK) LLP is authorized and regulated by the Financial Conduct Authority ("FCA") in the United Kingdom. Pantheon Ventures (HK) LLP is regulated by the Securities and Futures Commission in Hong Kong. Pantheon Ventures (Guernsey) Ltd and a number of other Pantheon entities incorporated in Guernsey are regulated by the Guernsey Financial Services Commission. Pantheon Ventures (Asia) Limited is registered as a Type II Financial Instruments Business and Investment Advisory and Agency Business Operator with the Kanto Local Finance Bureau in Japan (KLFB). Pantheon Ventures (Ireland) DAC is regulated by the Central Bank of Ireland ("CBI").

** This figure includes assets subject to discretionary or non-discretionary management, advice or those limited to a reporting function. Data is unaudited.

*** Please note that the Bogotá office is a representative office of Pantheon Ventures (US) LP ("PV US"), and that a Korean subsidiary of PV US has opened the office in Seoul.

This press release is not an offer of securities for sale. Securities may not be offered or sold in the United States absent registration or an exemption from registration. © 2020