

## Evergreen CITs: A Scalable Solution for Alternative Assets in 401(k) Plans



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### **A Turning Point for Retirement Investing** **The US retirement system**

is undergoing major changes. With more than \$12 trillion in defined contribution (DC) plan assets and more than 90 million Americans relying on 401(k)s for retirement security, the need for innovation in plan design has never been greater. Historically, these plans have been dominated by mutual funds and other vehicles that offer daily liquidity, leaving participants largely excluded from the diversification and return potential of alternative assets—private equity, real estate, infrastructure, and private credit—that institutional investors have long embraced.

The executive order issued by the White House on August 7, 2025, titled Democratizing Access to Alternative Assets for 401(k) Investors shows a clear change in policy. It directs the Department of Labor and the Securities and Exchange Commission to clarify fiduciary duties, propose safe harbors, and reduce litigation risk for plan sponsors that prudently incorporate alternative assets into DC plans. This is more than a regulatory adjustment; it presents an opportunity to enhance retirement investing outcomes.

Collective investment trusts (CITs) are commonly used for pooled investment vehicle options in DC plans. CITs, like mutual funds and other regulated investment companies, are pooled investment funds that are professionally managed. However, unlike a mutual fund, a CIT is excluded from the definition of “investment company” under the Investment Company Act of 1940 if the CIT is maintained by a bank and the assets consist solely of assets of retirement plans. Further, under the Securities Exchange Act of 1934, CITs are not required to be registered. Instead, the Office of the Comptroller of the Currency (OCC) oversees CITs. The OCC regulations are generally less rigorous than the regulations that govern mutual funds. Also, a CIT, like a retirement plan,

is exempt from US federal income tax because CITs are taxed as “group trusts” if specified requirements are met under Internal Revenue Service guidance.

Large 401(k) plans and other DC plans (e.g., those of Fortune 500 companies with tens of thousands of plan participants) often partner with banks to provide “white-labeled” CIT products available solely to their plan participants. Though these CITs today generally invest in liquid securities (e.g., those publicly listed and trading on an exchange), nothing inherently prevents their investment in illiquid assets (such as direct interests in real estate or private debt). Furthermore, CITs may be used as part of a broader fund-of-fund complex (with all funds structured as CITs), such as a target-date fund with gliding allocations among its various components, including within a particular DC plan.

### **Strategic Benefits for DC Plans**

Though 401(k)s have all but replaced the corporate defined benefit pension plan, many US states and their subdivisions and agencies continue to provide defined benefit pension plans for their current and former employees. With very long-term investment timelines and participants in various stages of their careers, these pension plans do not manage their assets to provide each individual investor with a direct interest in an underlying liquid investment. Rather, they manage their pension plans to maintain sufficient overall liquidity based on expected plan participant needs, while also investing in a diversified manner to seek to maximize long-term returns. Many such plans have turned to alternatives for at least a portion of their allocations (with some going as high as more than half their allocations to alternatives) to increase diversification, reduce volatility, and enhance returns. As has been noted, such plans can and have outperformed traditional 401(k)s, and with the newly issued executive order, DC plans should consider whether they should provide their participants similar accessibility to alternatives.



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### Evergreen Structure

“Alternatives” has historically referred to anything other than publicly traded stock or debt. Though not all alternatives need to be illiquid (for instance gold and other “hard assets” and cryptocurrencies are relatively liquid), the funds currently formed to invest in alternatives generally are more illiquid than the typical mutual fund. For instance, even an actively managed hedge fund trading solely publicly traded stock will have redemption terms that may require up to a full year (or longer) to obtain complete liquidity. Funds formed to invest in illiquid assets (such as private credit, real estate, or infrastructure) are even more illiquid; they do not allow any redemption requests from the fund at all or sales of the interests in the fund without the fund manager’s consent, which can be withheld in its sole discretion. On the other hand, there are some open-end real estate fund products, such as Blackstone Real Estate Income Trust, that obtain their investment returns from highly illiquid investments, yet promise their investors significant liquidity (in normal market conditions). This raises questions about the suitability of such products for long-term retirement accounts versus medium-term savings goals.

Enter hybrid funds. Making use of flexible terms, a CIT could allow for daily subscriptions; somewhat regular, reasonable withdrawals; and in exchange for giving up daily liquidity, investment in assets more appropriate for the investment timeline of its investors.

### An Example

Example Corp. has 50,000 employees participating in its 401(k), with total assets of \$5 billion. Current investment options are various US and non-US index funds, some debt funds, a real estate fund, and some actively managed emerging-market funds



or small-cap funds. Say Example Corp. has a total US market CIT instead of the various US equity funds. All these investments are ultimately intended to be held for a very long time, yet they are designed to be fully redeemable at any time and in full by any (or even all) plan participants. Therefore, Example Corp. holds only liquid investments in publicly traded securities, notwithstanding the significant growth of private markets relative to public markets.

Now envision the addition of a real estate CIT that allows for daily subscriptions, quarterly redemptions with reasonable fund-level limitations, and investment in a combination of liquid REITs and individual joint venture opportunities the same way the public pension plans currently invest. The August executive order should make reputable asset managers that provide attractive returns at defensible prices comfortable that these structures can and should be made available to DC plans.

### Criticisms and Counterpoints

Opponents argue that private assets are inherently illiquid, and any type of advertised liquidity exists only until it doesn't. It is true—the hybrid structure by design limits liquidity sufficiently to allow a CIT to invest in the illiquid assets it is designed to. That means the CIT's investments are, therefore, most likely to be the most illiquid at the time when liquidity is scarce. Should 401(k)s be a source of liquidity when liquidity is scarce? Will this prevent all plan participants from raiding the portion of their 401(k) invested in private real estate (which would not be intended to serve as 100% of an individual's 401(k)) at the same time? Yes. Such constraints may actually support long-term investing discipline.

### Transparency

Price opacity is another criticism of the private markets. The reality is that it is very difficult to value a highly illiquid and unique asset such as a core real estate asset. However, that is true whether the asset is held by a publicly traded REIT, a private REIT, a private CIT, an operating business, a sovereign wealth fund, or a defined benefit plan. However, it has become significantly less true over time as real estate has become a much more institutionalized asset class.

### Fees

Alternative strategies carry higher fees than do index funds. That cannot be denied. However, those fees are justified by long-term results. Public pension plans and defined benefit plans see value in the higher fees associated with private real estate. Plan fiduciaries should start getting comfortable as well.

### Conflicts

The Institutional Limited Partners Association has correctly noted that 401(k)s' inability to invest in private assets likely means risks for their members and potential conflicts for sponsors. The investment allocation issues are real.

A \$12 trillion tsunami of liquidity is headed toward illiquid assets that have been stubbornly illiquid for just a little too long. That part will be interesting. Going forward, does this mean the party is over for public pension plans?

We'll all live in interesting times at some time. Ideally, they're interesting in the right way at the right time. ■

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