Catering to the Investment Needs of Self-Directed IRAs and Other Specialized Investors

By
Brett L. Davis
Senior Vice President and Chief Trust Officer
Exeter Trust Company



A private debt fund will rarely lend to a self-directed IRA or individual 401(k) plan or encounter a qualified intermediary for reverse 1031 exchanges. The fund might not realize the total potential capital value of directed SDIRAs, 401(k) plans or personal trusts seeking managed debt investments. A book of business for a private debt fund, then, will never be made entirely on these strategies and account types.

However, these specialized accounts and strategies can supplement a fund's investor array and provide an additional stream of funding in times where traditional fund investors falter. It is a matter of diversification.

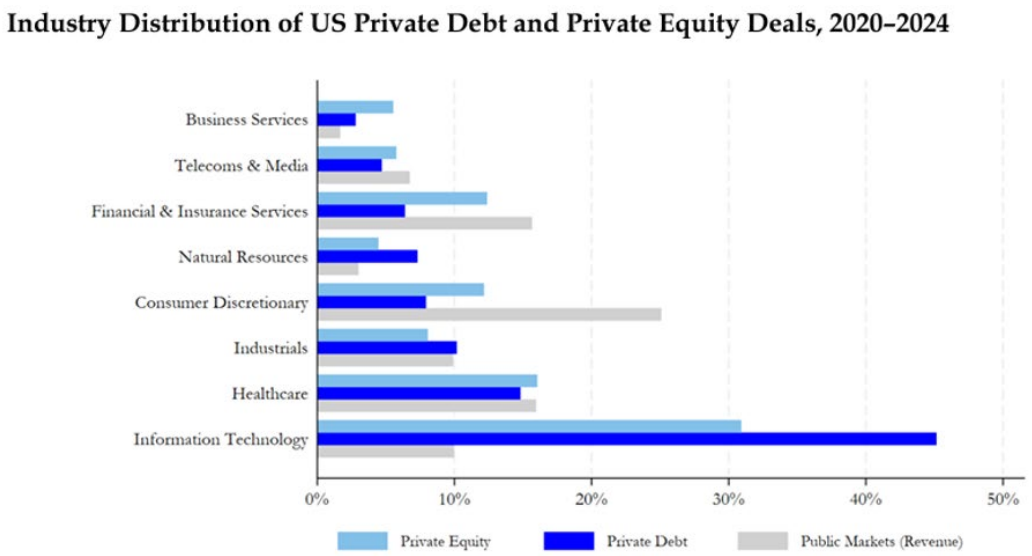
The self-directed IRA and 401(k) plan market is estimated at over $19.2 trillion in value across over 1 million accounts, according to the Investment Company Institute in its Q4, 2025 report. This number is anticipated to grow with implementation of Executive Order 14330 Democratizing Access to Alternative Assets for 401(k) plan Investors, which promises to increase access to private funds and alternative investments for retirement plan participants.

Ivashina (2025) notes that "we may be approaching a critical juncture" as 401(k) plans increase their interest in private assets such as debt funds, and "the easing of supervisory and regulatory requirements for banks could lead to further increases in leverage" (p. 24). Pitchbook (2026) suggests that private debt is the fastest growing alternative investment asset class.

This regulatory forward momentum, as well as investor appetite, positions private debt funds for growth from the retirement plan ecosystem. It becomes important, then, to understand how to market to holders of these account types, and it begins with the concept of diversity.

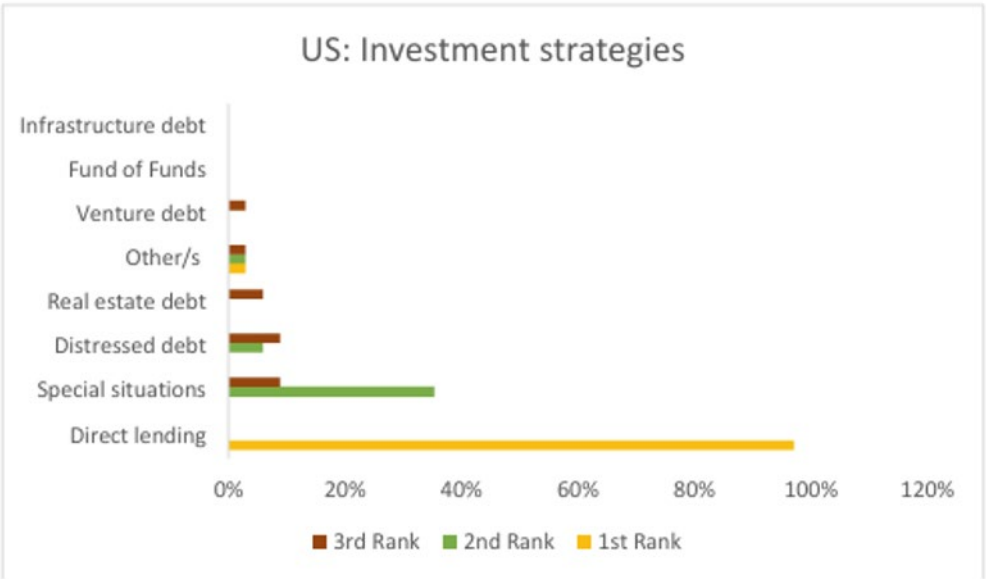
Self-directed IRAs and individual 401(k) plans crave diversity because it balances returns, risk and growth in a broad portfolio of investments. Diversity will not eliminate risk, but diversity claims to spread the risk and reward across different asset classes with different business cycles and with sensitivity to time progression. Further, diverse asset classes decrease correlated price movement and risk. Put differently, a basket of debt funds does not correlate with a set of listed technology stocks. The prices move differently and are affected by different factors in their related ecosystems and markets. The effects of asset return failure and price decay are also decreased in a diversified portfolio.

Even though diversity in broad portfolio construction is enough for many retirement investors to explore private debt, the debt-type is equally important. Private debt can be categorized at a broad level across eight sectors.



Ivashina (2025): Sample of diversification of private debt categories.

One can further dissect the private debt market into strategy types.



Block et al. (2024): Sample of cross-section of private debt investment strategies.

This cross-section can be refined in different ways - these are merely two examples of a mathematically attractive way to demonstrate diversity in an investor conversation.

Private debt funds can also be made attractive to retirement plan investors because they differ significantly from big-box bank lenders. Block et al. (2024) suggest that private debt funds ". . . make cash flow-based loans to smaller companies, are willing to provide more leverage than banks to those companies, charge higher interest rates, use less leverage in their funds, appear to monitor more often and tend not to make asset-based loans" (p. 27). This translates to a wider array of potential borrower profiles and higher yields to the fund and investors.

For the sophisticated investor, one can also argue that private debt funds are innovators in their space. One way debt funds vet borrowers is to apply efficient practices and systems in a more agile manner than the big-box public lenders. When speaking to private debt funds' generally low leverage ratios, Diamond and Rajan (2001) muse that private debt funds have been able to operate without high leverage from short-term debt and utilize models anterior to optimal lending theories. Block et al. (2024) take this argument further with: "It is possible that the private debt firms innovated in a way that allows them to lend to and monitor the borrowers more effectively" (p. 28).

Private debt funds can increase their investor array by catering to the diversification needs of self-directed IRAs and directed personal trusts, as well as playing a role in other alternative and tax-deferral strategies.

References

Block, J., Jang, Y. S., Kaplan, S. N., & Schulze, A. (2024). A survey of private debt funds. The Review of Corporate Finance Studies, 13(2), 335-383.
Diamond, D. W., & Rajan, R. G. (2001, June). Banks, short-term debt and financial crises: theory, policy implications and applications. In Carnegie-Rochester conference series on public policy (Vol. 54, No. 1, pp. 37-71). North-Holland.
Erel, I., Flanagan, T., & Weisbach, M. S. (2024). Risk-adjusting the returns to private debt funds (No. w32278). National Bureau of Economic Research.
Ivashina, V. (2025). The role of private debt in the financial ecosystem (No. w34426). National Bureau of Economic Research.
Kilgour, J. G. (2020). The role and importance of individual retirement accounts. Compensation & Benefits Review, 52(1), 19-26.
Pitchbook. (2026). alternative-assets - PitchBook