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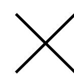
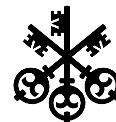
September 2025

Alternative realities

Behind the headlines of the private markets megatrend

Bloomberg ×   UBS

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Introduction

Alternatives are not a new trend. From pension funds to family offices, what was once seen as a peripheral category of capital markets is now shaping both institutional and private wealth portfolios in a shift that has been building for more than a decade. What's new is the speed of acceleration, driven by profound structural resets across financial markets.

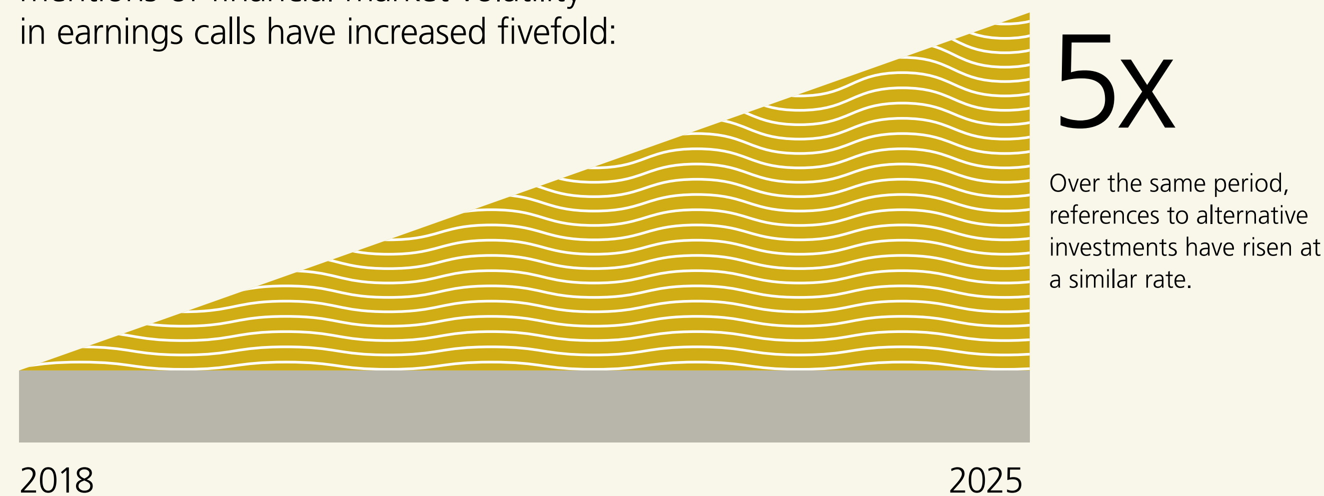
Amid higher interest rates, persistent inflation and global uncertainty, many institutional investors are questioning whether traditional 60/40 portfolios – built around public equities and bonds – are still fit for purpose. There is also a growing focus on strategies that may deliver resilience, diversification and a different return profile.

In early 2024, interest in alternatives focused primarily on familiar areas, with real estate and private equity most frequently mentioned. By January 2025, the tone had shifted, with private credit, hedge funds, digital platforms and SEC regulatory changes dominating the agenda. Throughout this period, institutional investors have been reevaluating their exposure.

Such periods of heightened uncertainty consistently coincide with increased interest in alternatives, and the asset class is currently being reappraised by investors of all types.

> "When you look at alternatives, you're not just protected from volatility, but arguably more protected in a risk-adjusted way."
>
> **Johannes Roth,**
> Co-Head Unified Global Alternatives at UBS Asset Management

Bloomberg data shows that since 2018, mentions of financial market volatility in earnings calls have increased fivefold:



5x

Over the same period, references to alternative investments have risen at a similar rate.

Institutional investors, from pension funds to insurers, have steadily increased their allocations to private markets to as much as a fifth of their portfolios.[1] Infrastructure, private equity and private debt are the most likely targets for future investment from public pensions, according to Preqin data, while endowments and foundations allocated a higher percentage of their AuM to alternatives than any other institutional investor segment in 2024.

Private wealth clients are now following suit, driving a convergence in how both investor types are designing portfolios and managing risk. Their objectives are increasingly similar: diversified exposure; durable yield; and access to return streams that are less reliant on public markets. "Aside from tax considerations, there's no reason why a sophisticated private investor should allocate capital any differently from an institutional investor," says Jerry Pascucci, Co-Head Unified Global Alternatives at UBS Asset Management.

The market is increasingly offering structures that suit both investor types, and the challenge now isn't deciding whether to allocate to alternatives, but how best to do it. Multi-manager platforms, semi-liquid evergreen structures, secondaries and curated fund-of-funds (FOF) investment vehicles are broadening the base of investors who can access alternatives. "Wealth clients' portfolios would look totally different from the ones that institutional investors have, and we're trying to bridge the gap in order for them to have access to thoughtfully constructed portfolios," says Roth.

"This is a pretty unlevel playing field." he says. The opportunity for a more level playing field is significant: private market AuM reached USD 11.7 trillion in mid-2022, with private wealth forecast to bring between USD 500 billion to USD 1.3 trillion into this asset class by the end of this year, according to McKinsey.[2] Bain forecasts that by 2032, alternatives will account for 30% of all global AuM[3].

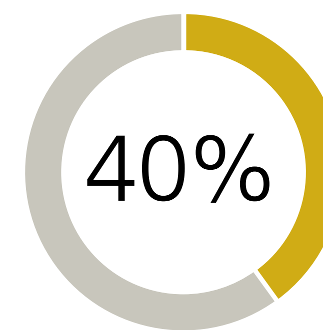
1 *Institutional Allocation Study 2024*
2 *US wealth management: A growth agenda for the coming decade*
3 *Bain, August 2024*

1

The rise of alternative investments

As the market expands, what's changing now are not only allocation levels, but also the function of alternatives in portfolios. It's about blending resilience with yield, and increasing flexibility with capital deployment in environments where public markets struggle to keep pace. Investors are focused on building resilient portfolios and are searching for investment strategies that can absorb pressure, operate in an environment with limited exit options and still perform over longer holding periods.

One of the fastest-growing categories within the alternatives universe is private credit. Over the past decade, the debt markets have been among the clearest beneficiaries of the low-rate, post-GFC environment; as banks pulled back from corporate lending, direct lenders stepped in to serve borrowers with speed, flexibility and fewer restrictions.



According to Preqin, **private credit now accounts for more than 40% of global new issuance**, and assets under management are expected to grow from USD 1.5 trillion at the end of 2023 to USD 2.6 trillion by 2029.[4]

However, conditions have changed: Rates are now higher for longer, putting borrowers under pressure, and regulators are taking a closer look at valuations. Paradoxically, the environment that supported the rise of private credit is now testing it.

> "The real question is whether you'll continue to see durable premiums above liquid fixed income."
>
> **Johannes Roth,**
> Co-Head Unified Global Alternatives at UBS Asset Management

Still, Roth remains optimistic: "The universe for us is not the uber-risky part of the market – it's direct lending and other opportunities with floating rate characteristics, sponsor-backed companies and triple-digit EBITDA."

As scrutiny within the sector rises, this underwriting discipline matters more than ever. It's not about whether lenders are banks or non-bank entities, but whether they have loan-level visibility and the ability to shape exposures meaningfully. "Investors shouldn't be confused by the semantics and the noise," Pascucci says. "What they should be focused on is the merits, the quality, the underwriting." Structure and transparency, he says, are critical. "The term I always use is: content over container," says Pascucci. "Do you understand your content, and does that content belong in the container it's in? With all forms of credit, structured and otherwise, you have to understand both content and container, and whether they're appropriately matched."

"The disintermediation of lending from banks to private players represents a significant shift in the financial landscape," says John Popp, Global Head and CIO of the Credit Investments Group at UBS Asset Management. He adds that "private debt presents a wealth of opportunities for investors and borrowers alike," but investors must pay careful attention to regulatory changes on the horizon. The EU's updated AIFMD II rules,[5] set to take effect in April 2026, will tighten regulation of alternative investment funds involved in private credit, and the SEC is scrutinizing the introduction of private credit exchange-traded funds (ETFs) aimed at retail investors.[6]

Nevertheless, Pascucci is bullish about the market's prospects, albeit within a new, higher-rate regime. As such, lenders and allocators will need to focus on fundamentals and enforceability, and the difference between average and best-in-class deals. "There have not been significant losses from lending money in a very long time," says Pascucci. "When you're no longer in an artificially supported environment, you'll see more dispersion in returns, and more emphasis on real value creation over financial engineering."

4 *Bloomberg Intelligence, February 2025*
5 *AIFMD II amidst the debate on private credit market growth and financial stability*
6 *State Street, Apollo to Rename Scrutinized Private Debt ETF*

At the same time, another core assumption, long-held across alternative investments, is being challenged: the idea that private markets are synonymous with illiquidity. As investors reassess the risk-return profile of alternatives, they're rethinking how much liquidity they actually need and what it should cost them.

Investors have traded liquidity for higher potential returns, but this mindset is beginning to shift, particularly across real estate, infrastructure and private equity, long seen as the most illiquid parts of the private markets. "Liquidity used to be seen as an unqualified good. Now, investors understand it costs you, and the illiquidity premium has to be worth it," says Pascucci.

> "The PE world has paused a little bit because of what's happening with tariffs; it could lead to a lot of change."
>
> **Diana Celotto,**
> Co-Head of Unified Global Alternatives – Private Equity at UBS Asset Management

Private equity is already adapting to well-documented liquidity constraints. The post-2021 slowdown in M&A, combined with weaker IPO markets, has extended holding periods and made exits more difficult and fundraising more competitive. More recently, tariff-related volatility has dampened already sluggish activity.

"The PE world has paused a little bit because of what's happening with tariffs; it could lead to a lot of change," says Diana Celotto, Co-Head of Unified Global Alternatives – Private Equity at UBS Asset Management. "It's not surprising right now that GPs – or any investor types – are taking a long-term view of companies."

Managers are increasingly looking for new liquidity tools to return capital to investors without relying on the public markets. Secondaries have become core to active portfolio management, along with GP-led continuation funds and NAV-based lending. Staggered redemption structures are also gaining traction. "I've seen secondaries move from being something used really at the margin, when people were desperate for cash, to a core strategy," says Celotto.

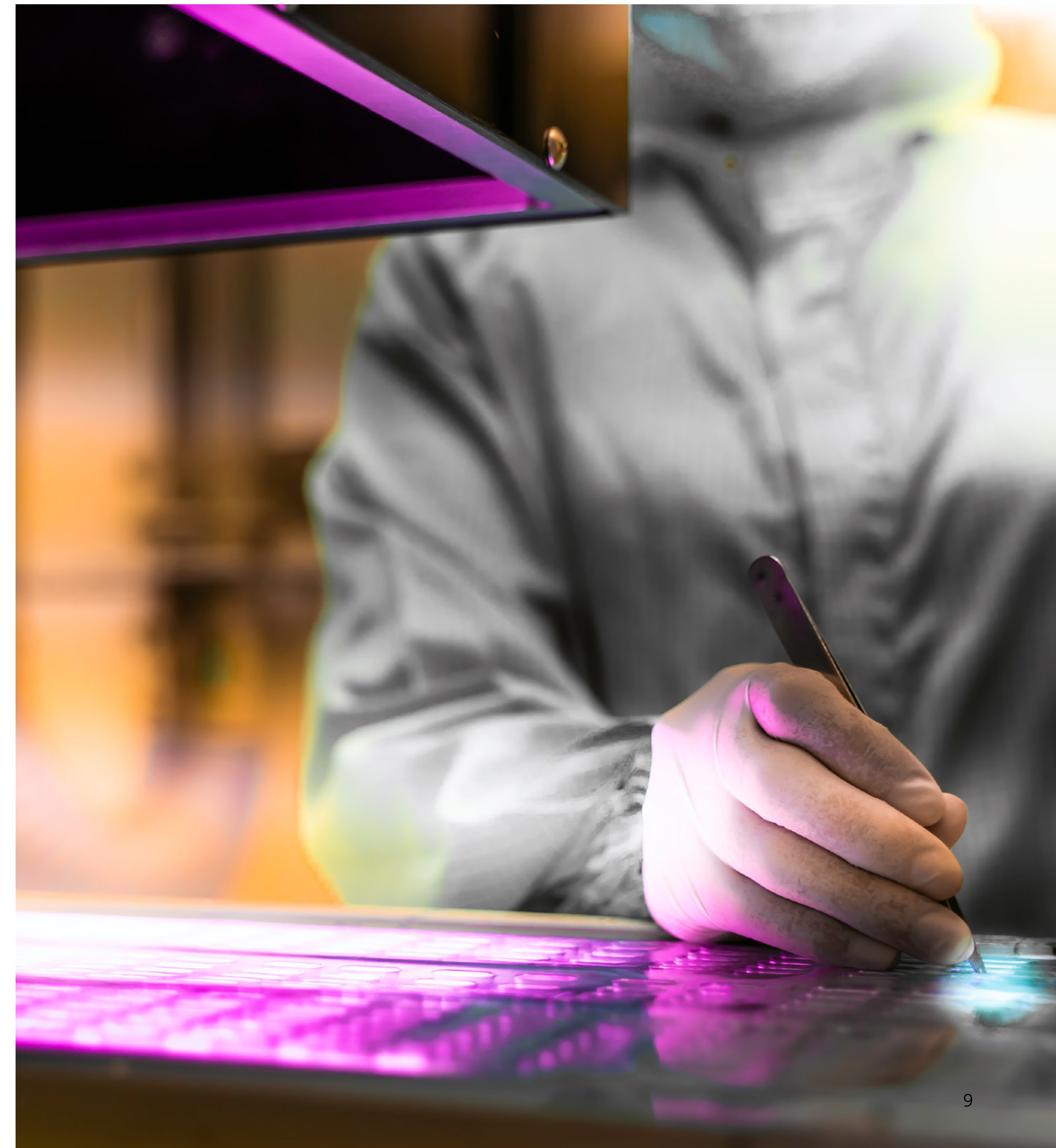
Perpetual structures are being developed to accommodate clients who want private market exposure without the traditional lockup periods. "Historically, this was really about institutions, but now GPs are thinking about wealth clients – those who might have been put off by longer-term, more institutional vehicles," says Roth. "We're starting to see the industry try to find things that are more suitable for them."
The increasing sophistication of private equity investors and the surge in secondary market strategies are also driving greater manager and sector specificity. "The more complex the industry, the more important it is. There's real potential for sector-specialist managers; that's a trend we expect to see play out more," says Roth.

Despite the current slowdown, long-term demand for private equity remains strong.

Preqin forecasts that **private equity AuM will rise from USD 5.8 trillion in 2023 to USD 12 trillion by 2029**. Fundraising is expected to pick up again from 2027, supported by rising interest from private wealth.[7]

Celotto points out that private equity is already relatively shielded from sharp market fluctuations because of funds' tilt toward companies in areas like technology, financial services, business services and health care, which are less exposed to geopolitical shocks. The typical five-to-10-year exit horizon offers additional protection. "Private equity portfolios are relatively insulated from tariff risks because strategies are oriented to five-to-10-year horizons, which gives you more flexibility," she adds.

Taken together, these shifts – from GP-led secondaries to perpetual formats and sharper sector focus – show how the private equity model is evolving. As liquidity pressures persist, managers are reevaluating what it means for pricing, access and overall portfolio construction. Performance will depend not just on what managers hold, but on how they manage exposure, structure access and offer long-term value.



7 *Global alternatives markets on course to exceed USD 30 trillion by 2030 – Preqin forecasts*

2

Hedge funds are back in focus as volatility persists

In the context of ongoing volatility and a new liquidity paradigm, hedge funds have performed well in the unpredictable environment that's persisted since the pandemic and, more recently, during tariff-driven disruptions.

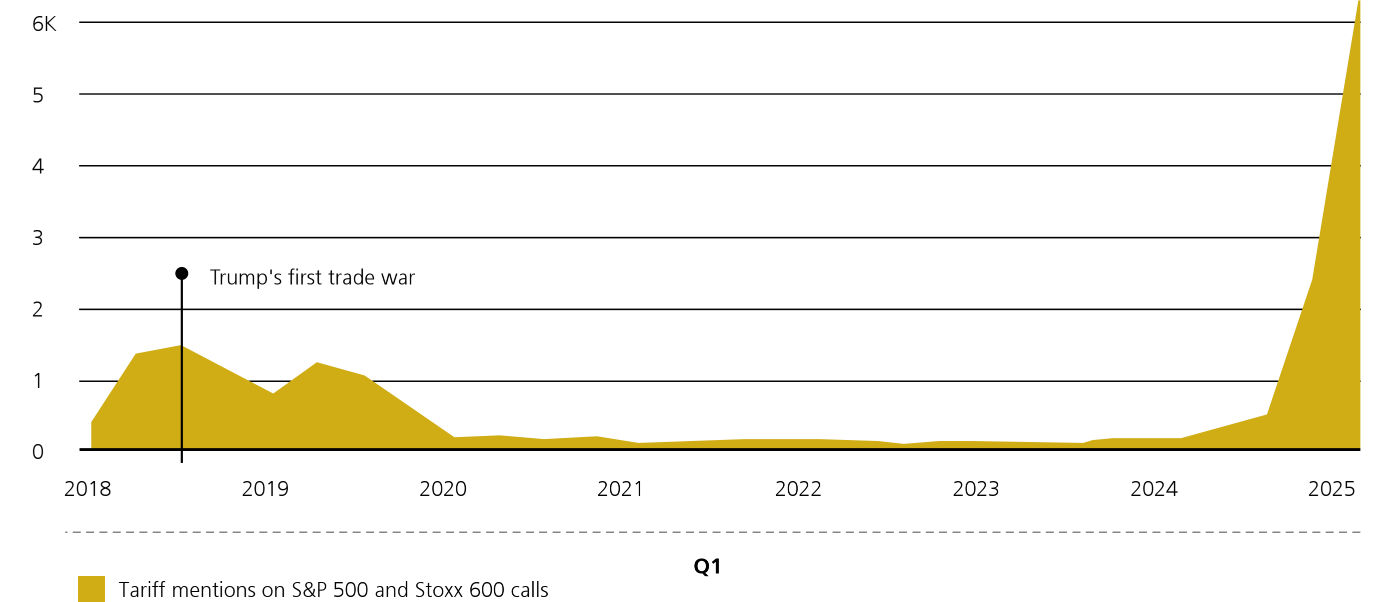
"Hedge funds could take a bit of the slack from the slowdown in private equity," says Edoardo Rulli, Head of Unified Global Alternatives – Hedge Funds at UBS Asset Management.

Barclays reported 10% hedge fund returns in 2024, including 2% alpha, and allocators are taking notice, not just for growth, but for potential protection.[8] "We've been very active in proposing portfolios of what we call risk mitigation strategies. Hedge funds tend to perform better when volatility spikes, spreads widen or rates and FX move sharply," says Rulli.

While other alternatives, such as private credit and equity, are seeing greater alignment between institutional and private wealth use cases, hedge fund strategies depend on the investor's objective. "Institutions are saturated with multi-strategies and are now looking for more specific, complementary exposures, whereas wealth clients are earlier in their journey; they want access and they tend to prefer big brand names, especially in the multi space," says Rulli.

That divergence isn't about access – many hedge funds are already liquid and perpetual – but about function: Institutions use hedge funds to manage specific risks and behaviors in their portfolios, whereas wealth clients often use them as diversified portfolio building blocks.

Platforms like fund of funds are key here, giving wealth clients access to leading managers, with quarterly liquidity and simplicity. "With the fund of funds, you end up with a result similar to a multi-strategy, but with liquidity; you can use it to move between asset clusters," Rulli says.
As private markets mature, hedge funds are being reappraised for their ability to manage risk and liquidity when conditions are difficult.



Source: Bloomberg
Note: Mentions of "tariffs" and synonyms on S&P 500 and Stoxx 600 earnings calls

8 *Hedge Fund Outlook: Allocations set to grow in 2025*

3

Real assets are being redefined by debt exposure

Real assets – traditionally favored as a resilient store of wealth for private investors and a reliable source of income for institutional investors – are undergoing their own transformation, with growing private wealth participation and a shift from ownership to credit exposure.

As one Bloomberg analyst notes, private wealth "likes" physical assets, which is why there's currently a significant amount of private wealth in real estate.

Between 2013 and 2024, JLL tracked[9] more than

USD 1.5 trillion

in private wealth investments into commercial real estate.

Office properties led the way, attracting USD 464 billion, followed by retail and industrial assets.

Part of this shift has been structural, as banks, facing tougher capital requirements, have stepped back from holding large real estate exposures, which has opened the door to other players.

"There are a lot of insurers buying assets from the banks, going into real estate, because it is so expensive for the banks to hold these assets now," says Roth. "Private wealth would also be a good holding position, a good store, for some of these assets."

At the same time, investors have increased their appetite for real estate debt over direct ownership – lending against assets, rather than holding them. Savills[10] reports that private real estate debt has grown 25% since 2015, fueled by the hunt for yield and the added benefit of asset-backed protection that this asset class provides.

Smaller banks account for around 70% of all outstanding US bank loans[11], according to the Federal Reserve and MSCI Real Capital Analytics, and roughly 40% of all commercial real estate lending, yet there is significant scope for private debt providers to step in. Nearly USD 500 billion in real estate loans matured in 2024.

> "I look at the five asset classes in our UGA roster, and I see infrastructure as being most sought after."
>
> **Edoardo Rulli**, Head of Unified Global Alternatives – Hedge Funds at UBS Asset Management

As with other alternative asset classes, investors are becoming more strategic about exactly how and where they allocate capital to real estate in this new environment. "In real estate, you also see many opportunities; yes, we might have to look a little more regionally, where you see opportunities that are less dependent on tariffs, on global trade," Roth notes, highlighting activity in Japan and Australia.

Infrastructure is also attracting greater volumes and new sources of capital. From Europe's green energy drive to growing demand for power and digital assets across the US, long-term, government-backed investment programs make this one of the few asset classes where demand is structural and policy-aligned.

"Infrastructure seems to be in very high demand, rightly so," says Rulli. "I look at the five asset classes in our UGA roster, and I see infrastructure as being most sought after." Most of the major infrastructure fundraising to date has focused on large-cap funds[12], which has made it harder for managers to deploy capital efficiently, pushing more investors toward mid-market infrastructure companies – those valued between USD 400 million and USD 2 billion – where there's less competition, better pricing and more flexibility. Popular investments include renewable energy, digital infrastructure, such as fiber networks and data centers, and transport and utility assets.

Taken together, these shifting asset class dynamics show how the private markets have matured. What began as a hunt for yield has pushed them from the peripheries to become a central part of portfolio construction. The next phase of growth will be driven not just by new strategies, but also by smarter packaging.

9 *Private Wealth Tracker*
10 *Private Market Opportunities: The Case for Real Estate Debt. (PDF)*
11 *MSCI*
12 *Infrastructure in 2025: Megatrends and Mid-Market Opportunities*

4

Changing investor behavior, and product innovation

The line between institutional and private wealth portfolios is blurring, not just in allocations, but also in structure and sophistication, with perpetual structures, multi-manager platforms and semi-liquid formats rising to the fore. Their appeal lies not just in liquidity, but also in simplicity and scalability – traits valued by investors of all sizes. "These perpetual structures have been really popular," says Celotto. "Even institutional investors like the simplicity and capital deployment."

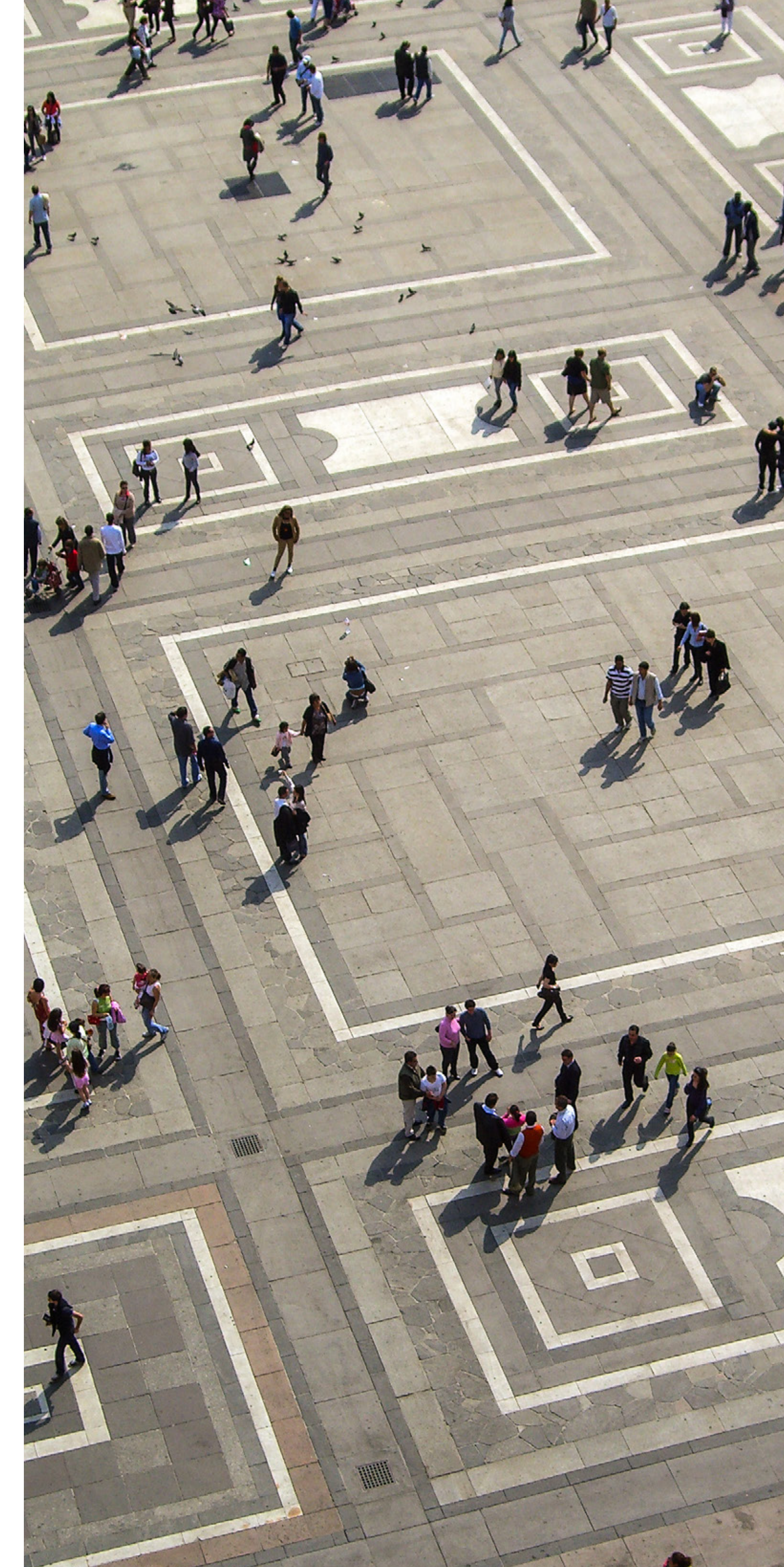
Sophisticated allocators are demanding more control over how their alternatives exposures are constructed, and this is particularly evident in hedge funds, where separately managed accounts (SMAs) are increasingly used instead of pooled vehicles.

> "Just because there's not a shortage of product doesn't mean there isn't a shortage of best-in-class product."
>
> **Jerry Pascucci**, Co-Head Unified Global Alternatives at UBS Asset Management

As more wealthy clients and smaller institutions seek private market exposure, they're looking for solutions that deliver diversification, efficiency and flexibility without the operational burden of managing multiple vehicles. Fund-of-funds investment vehicles remain a core access route to hedge funds, thanks to their quarterly liquidity. "You can scale in, but you can also scale out, and fund of funds gives you that ability; within three or four months, you get your money back," says Rulli. Private investors can now also access high-quality private assets through regulated products such as European Long-Term Investment Funds (ELTIFs) and the UK's Long-Term Asset Fund (LTAF).[13]

Elsewhere, demand for multi-alternative strategies is soaring. These diversified products combine exposure to private equity, credit, real estate, infrastructure and hedge funds within a single framework. "It's not just about offering the individual building blocks to investors and clients," says Roth. "It's also really important to combine these building blocks and then build portfolios that make sense, that are really diversified, that are outcome-oriented."

For many clients, particularly smaller institutions and private banks, building a full-scale alternatives program in-house isn't realistic due to the operational complexity, so they're looking for external support. Demand is rapidly growing for such services: "We're not just doing this for our own clients, but also for smaller banks, wholesale channels and institutional clients who want us to optimize the entire portfolio construction," Roth says. "The demand for this service and the productization of the service is much, much bigger than we would have anticipated. We can now build portfolios in a much more bespoke way."



But as more capital enters alternatives, the risk grows that the alpha and illiquidity premia, which they have long been associated with, are being diluted. Across the board, manager quality is becoming paramount, and the fiduciary bar is rising, particularly when offering institutional-grade products to private clients. "Just because there's not a shortage of product doesn't mean there isn't a shortage of best-in-class product," says Jerry Pascucci. "That's for all of us who invest professionally on behalf of others to sort out."

13 *Comparing ELTIFs and LTAFs – a new era for illiquid investments on both sides of the river?*

5

The maturation of alternatives: Balancing growth and scrutiny

After a decade of expansion driven by ultra-low rates and rising allocations, alternative investments are entering a more mature phase where growth will continue, but not on the same trajectory. "The first-mover advantage is clearly over," says Pascucci. "It doesn't mean the total dollars into those things will flatten; it just means that the trajectory will flatten."

This is not a pessimistic view, but rather a recognition that alternatives are now firmly embedded in the portfolios of both institutional and wealth management clients. And while access has become broader and the volume of capital flowing in is greater, the scrutiny of each asset subclass has increased, and asset managers must now do more to demonstrate value. "The proliferation of the evergreens means that the analyst community and the media are at the table in a much more profound way, and clients are also much more educated and have many more questions," says Pascucci.

While old assumptions about alternatives are eroding, a key challenge in the years ahead will be to retain the value of alternatives as a diversifier, even as allocations rise and products proliferate. "We have to preserve the value of the risk premia and illiquidity premia that we provide as private market investors," says Pascucci. "When do those values start to deteriorate? And how do you find new forms of alpha?"

Productization will propel growth only so far. "I'm not convinced the market needs many more of those products," says Pascucci. "The market has to sort out, among all those representing, that they are in fact the best-in-class."

The real value of alternatives goes deeper than product-driven diversification; it's about the differentiated behavior the asset class provides. "Most strategies have what I'll call long volatility profiles; they're designed to withstand and sometimes benefit from dislocation," says Pascucci. "What I love about the private markets is that they are courageous in the most important times.

> "Owing to the illiquid nature of private markets offerings, investors are able to engage in dislocation opportunities with less latency than listed securities investors tend to do. The profile of this capital therefore enables the potential for broader up-capture of these opportunities on an absolute and risk-adjusted basis."
>
> **Jerry Pascucci**,
> Co-Head Unified Global Alternatives at UBS Asset Management

Investors are no longer solely diversifying by asset class, but also by the function that each asset class performs when markets dislocate. But for now, investors are not rushing to deploy capital; they're pausing, absorbing and repositioning. Once the most recent volatility is processed, capital will move, perhaps in different ways than before.

"Some of my most successful investment decisions were made from 2009 to 2011 because of the courage of engaging in the marketplace at a time when it was crippled with fear," says Pascucci.

Across institutional, family office and high-net-worth channels, how alternatives are accessed, structured and governed is moving into sharper focus. It's not just what you invest in, but also the structure, governance and purpose of a portfolio that will define alternative strategies going forward.

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