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The Red Thread

Alternative alpha

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Introduction



Barry Gill
Head of Investments,
UBS Asset Management

Blurred lines

“Good diversification means adding things that rhyme with nothing else in the portfolio.”

Cliff Asness

Alternatives have arguably become a defining feature of the modern investment landscape. Their rise reflects a structural shift in how investors think about diversification, liquidity and long-term value creation.

A thought-provoking game I like to play with colleagues and clients is to ask: what has happened to the average asset management fee over the last 20 years? Although they sense some mischief, the meteoric rise of index investing over this period seduces and anchors them downward. Yet their first instincts are right; the reality is that alternatives have stolen the share of wallet from active equity and fixed income managers, whose fees have been eroded by passive strategies. Counterintuitively, the average fee an asset management client pays has barely moved in two decades.

What we are witnessing is not simply a rotation of capital, but a fundamental reshaping of portfolios. The boundaries between public and private markets, between credit and equity risk, between liquidity and illiquidity, are increasingly blurred. Regulation and innovation are accelerating this shift. The democratization of alternatives, via evergreen funds, interval structures and long-term asset vehicles, is bringing what were once institutional-only exposures to a broader investor base.

This edition explores what this evolution means for investors. In **The great portfolio reset**, Jerry Pascucci and Johannes Roth outline how structural forces such as the AI infrastructure supercycle, the energy transition and once-in-a-generation investment into infrastructure projects will create opportunities for investors in alternative assets. They highlight the rapid innovation underway in investment vehicles and consider how AI is changing the investment process.

In **Embracing alternatives in a supply-driven world**, Evan Brown and Ray Fuller look at how supply-side forces are increasingly shaping economic outcomes and what this means for portfolio construction. Spoiler alert: increased allocations to alternatives.

Our **guest interview features Delta Air Lines’ CIO Jon Glidden**. We discuss his role in such a remarkable corporate pension turnaround, and the key role alternatives played. In **When credit demand follows supply**, David Mechlin and Eileen Liu show how the convergence of public and private fixed income markets is creating opportunities for allocators to think beyond traditional labels. Meanwhile, Claire Tucker and Michael Dwier examine whether the **“Hedge fund juice” is still worth the squeeze** as multi-strats, fund of hedge funds and single-strat managers navigate a rapidly bifurcating industry.

Finally, Larissa Belova assesses how **Transition leads to opportunity in global real estate** – from a more constructive interest rate environment to shifting valuations and structural demand shifts – reshaping the global property landscape and creating debt opportunities as banks retreat.

Across all these perspectives runs a common theme: the investment universe is no longer neatly categorized. The lines between asset classes, geographies and investor types are blurring, and with that comes both complexity and opportunity.

As always, I hope this edition provides clarity amid the blur – and sparks ideas for navigating the next phase of market evolution.

A stylized, handwritten signature in red ink, consisting of a series of loops and a long horizontal stroke.

Barry Gill
Head of Investments,
UBS Asset Management



The great portfolio reset

How alternatives are changing the face of finance



Jerry Pascucci
Co-Head Unified Global
Alternatives



Johannes Roth
Co-Head Unified Global
Alternatives

As traditional 60/40 portfolios struggle in an era of persistent inflation and market volatility, institutional and private investors are turning to alternative assets as an additional source of returns and diversification. Jerry Pascucci and Johannes Roth examine the drivers and implications of this structural shift.

For decades, alternative investments have been skewed towards institutional investors with nine-figure minimums and substantial in-house due-diligence capabilities. That world has gone.

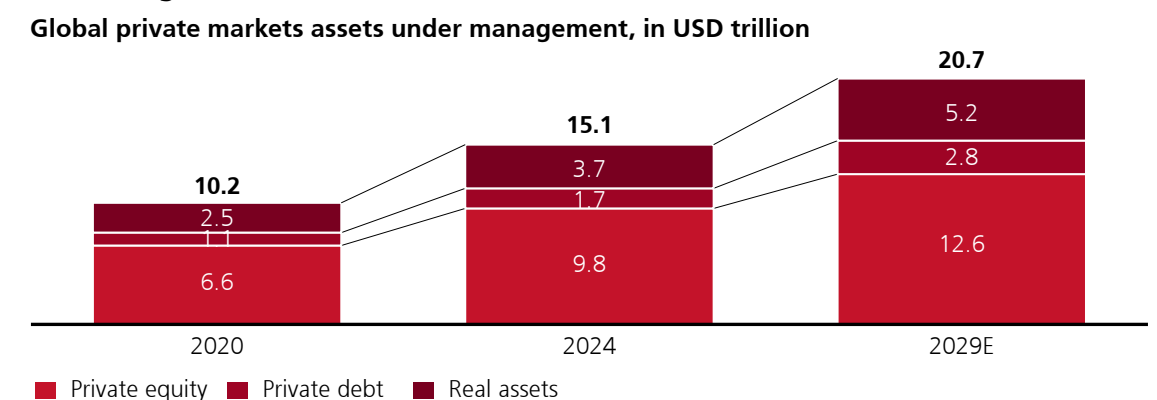
Today, as traditional investment strategies buckle under pressure from persistent inflation, elevated interest rates, and geopolitical uncertainty, a significant shift is reshaping investing. Portfolio construction conventions are also being challenged with the 60/40 split between stocks and bonds coming under scrutiny. Investors want uncorrelated returns, as well as shelter from unpredictable financial markets.

Many sophisticated private investors increasingly want to allocate capital the same way as pension funds. The transformation began quietly in the aftermath of the 2008 financial crisis. As central banks flooded markets with liquidity and drove interest rates to historic lows, institutional investors found themselves forced to venture beyond traditional asset classes in search of yield. Private markets began attracting unprecedented capital flows.

The numbers don't lie. Private market assets under management have grown substantially over the past decade and a half, reaching approximately USD 15.1 trillion at the end of 2024.¹ Just as important, the composition of that capital has shifted dramatically. Whereas pension funds and sovereign wealth funds once dominated, high-net-worth individuals and family offices now represent the fastest-growing segment.

As public markets have become more correlated and volatile, investors have realized the need for exposure to return streams that are less dependent on daily market moves. As the market matures, the focus is shifting from simply offering alternative products to delivering best-in-class solutions. The fiduciary bar is rising, demanding greater transparency, improved governance, and more sophisticated risk management.

Figure 1: With USD 15.1 trillion in AuM, global private markets are hard to ignore



Note: Closed-ended funds only. Excludes fund-of-funds and secondaries to avoid double counting.
Source: PitchBook, Preqin, UBS September 2025.

¹ Note: Closed-ended funds only. Excludes fund-of-funds and secondaries to avoid double counting.
Source: PitchBook, Preqin, UBS September 2025.

The private capital revolution

Take private equity. An influx of capital has allowed companies to stay private longer, shifting much of the value creation from public to private markets.

In 1980, there were approximately 4,658 publicly traded companies in the United States. By the end of 2024, despite significant economic growth, there were only 3,804 domestic operating companies listed on major US exchanges – a decline of approximately 18%.² Many companies that might previously have gone public are choosing to remain private, funded by private equity and venture capital. Companies can now scale to billions in revenue while remaining private.

But this success has created new challenges. The slowdown in mergers and acquisitions and initial public offerings has extended holding periods, making liquidity management a critical issue for managers and investors. The traditional private equity model of buying, improving, and selling companies within five years is being tested.

The industry is responding. Secondary markets have grown significantly in size and sophistication. Continuation funds – vehicles that allow general partners to hold onto their best assets longer while providing liquidity to existing investors – have become a core part of the toolkit. Indeed, secondaries are now a core strategy.

The overall evolution is also driving greater specialization. Rather than pursuing broad buyout strategies, many firms are focusing on

specific sectors or strategies where they can develop deep expertise and sustainable competitive advantages. Healthcare, technology, and infrastructure have emerged as particular areas of focus.

Switching the lens from equity to debt, post-financial crisis regulation has driven a curtailing of risk appetite. Combined with regional bank challenges, traditional banks have retreated from corporate lending and created space for alternative lenders.

For decades, banks were the primary source of credit for mid-market companies. Regulatory changes following the 2008 crisis, including capital requirements that made lending to smaller, sub-investment grade companies less attractive, created an opportunity for private lenders.

Indeed, private credit expanded to approximately USD 1.7 trillion at the end of 2024, up from approximately USD 1 trillion in 2020.³ The asset

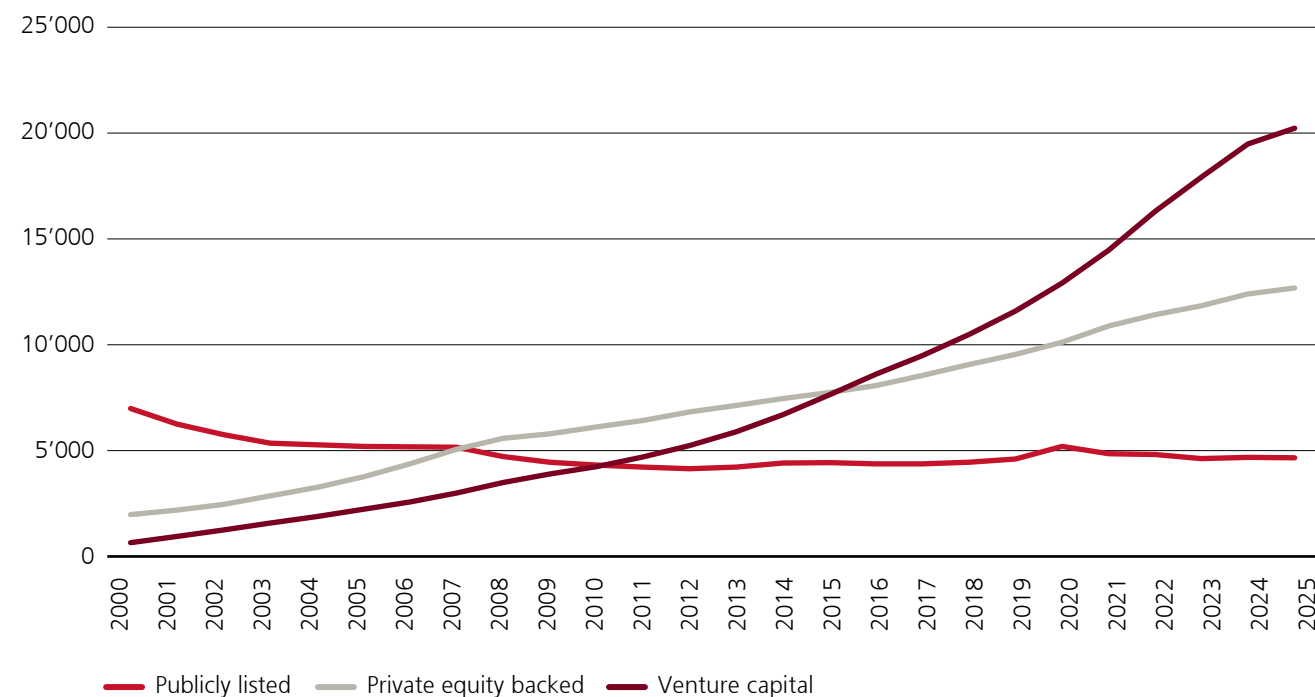
class has grown roughly ten times larger than it was in 2009 and is estimated to reach USD 2.8 trillion by 2029.⁴ Private credit now accounts for more than 40% of global new issuance, up from less than 10% just a decade ago.

Rapid growth has brought challenges. As more capital has entered the market, lending standards have come under scrutiny. Higher interest rates are testing borrowers' ability to service debt, while regulators are paying increasing attention to a sector that largely operates outside traditional oversight.⁴

Direct lenders are moving up-market, competing with banks for larger deals, while others are moving down-market, providing capital to smaller businesses traditionally served by regional banks. Specialized lenders are emerging in niche areas like asset-backed credit, as well as intellectual property and litigation finance.

Figure 2: The target universe is expanding, as more companies choose to stay private for longer

Number of US private equity-backed companies versus domestic listed firms on NYSE and Nasdaq



Source: UBS, PitchBook – September 2025.

Private credit has grown roughly ten times larger than it was in 2009 and is estimated to reach USD 2.8 trillion by 2029, now accounting for more than 40% of global new issuance, up from less than 10% just a decade ago.



² Number of Domestic Companies Listed on Major U.S. Exchanges, 1980-2024, Jay R. Ritter, University of Florida Warrington College of Business, 2024. Based on CRSP data. Available at: <https://site.warrington.ufl.edu/ritter/files/number-of-listed-firms-on-US-exchanges.pdf>

³ Note: Closed-ended funds only. Excludes fund-of-funds and secondaries to avoid double counting. Source: PitchBook, Preqin, UBS September 2025.

⁴ Ibid.

The megatrend opportunity: AI, energy transition and infrastructure upgrades

The convergence of global megatrends is creating compelling investment opportunities. Private capital is not just providing diversification for investment portfolios; it is increasingly becoming essential funding for the economy of tomorrow.

The AI infrastructure supercycle

Nowhere is this more evident than in the artificial intelligence (AI) boom currently sweeping through entire industries.

Training a single large language model can require the computing power of thousands of specialized chips running continuously for months. The electricity demands are enormous, with some estimates suggesting AI could account for a significant portion of incremental electricity demand growth in the coming years. This has triggered what many describe as an “infrastructure supercycle.”

In this sense, real assets play a crucial role in the AI technology rollout. the AI revolution is really

an infrastructure story Every query, calculation or AI-powered recommendation requires massive computing power. This means data centers, and all the requisite “picks and shovels” and the associated electrification, cooling needs, as well as the role of real assets in enabling the technology to reach its potential.

The result is a blurring of traditional asset class boundaries. What once might have been considered real estate investments – data centers and server farms – now function more like critical infrastructure, generating stable, long-term returns with limited correlation to traditional markets.

Investment will have to keep pace. McKinsey estimate that capital expenditure required to support AI-related data center capacity demand could range from USD 3 trillion to USD 8 trillion.⁵ Unlike traditional real estate, these facilities often come with built-in tenants – tech giants like Microsoft, Amazon, and Alphabet – locked into long-term leases that provide predictable cash flows.

The energy transition imperative

Meanwhile, the shift away from fossil fuels toward renewable energy sources is creating significant investment opportunities. The International Energy Agency estimates that achieving net-zero emissions by 2050 will require USD 4 trillion in annual investment through 2030.⁶ This is roughly double the current level. Governments and public markets alone cannot provide this capital, meaning private investment will be essential.

It is also one of the few asset classes where demand is structural and policy aligned. Whether renewable energy generation, battery storage, smart grids or green hydrogen, the investment opportunity is likely to run for some time – albeit evolving in nature.

The investment landscape is also evolving rapidly beyond traditional wind and solar projects. Advanced battery storage systems that stabilize electrical grids are attracting substantial private capital. Green hydrogen production, still in its early stages, is drawing investment from both infrastructure funds and private equity firms betting on its potential to decarbonize heavy industry.

Second-order opportunities are becoming increasingly relevant. As electric vehicles achieve mass adoption, private investors are funding networks of charging stations, battery recycling facilities and the rare earth mining operations that supply critical materials. The energy transition essentially requires a broad rethinking of how energy is produced, stored and consumed.

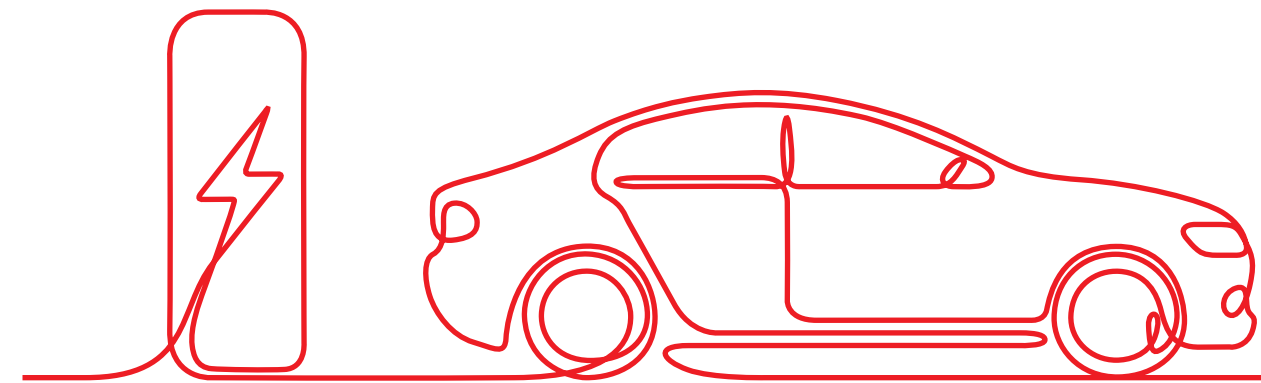
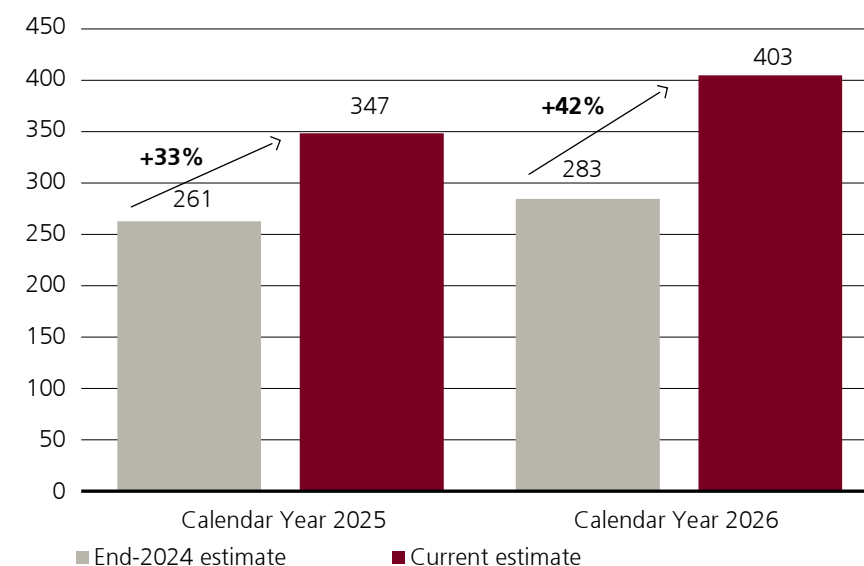


Figure 3: Big 4 Capex has been revised up c.30-40% in YTD-25

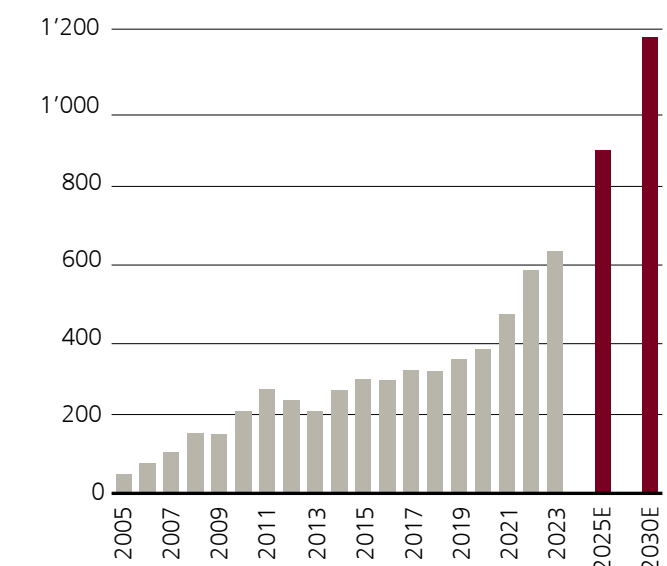
Consensus forecast: Big 4 Calendar Year 2025 and 2026 Capital Expenditure firms on NYSE and Nasdaq



Note: Big 4 Capex refers to the aggregate capex spend by Microsoft, Meta, Amazon and Alphabet.
Source: Bloomberg, UBS September 2025.

Figure 4: Renewable energy investment is expected to double by 2030

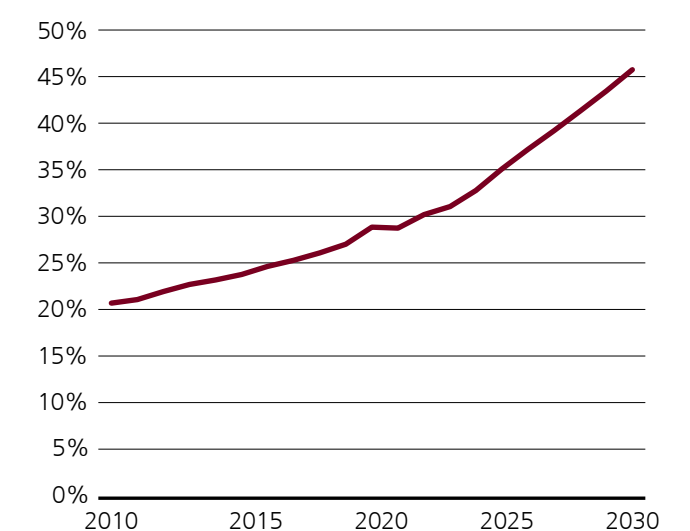
Global spending on renewable energy infrastructure in USD bn



Source: BloombergNEF, UBS September 2025.

Figure 5: Renewables now make up 35% of the energy mix

Renewable energy share in global final energy consumption



Source: IEA, as of UBS September 2025.

⁵ The cost of compute: A USD 7 trillion race to scale data centers, McKinsey & Company, 28 April 2025.

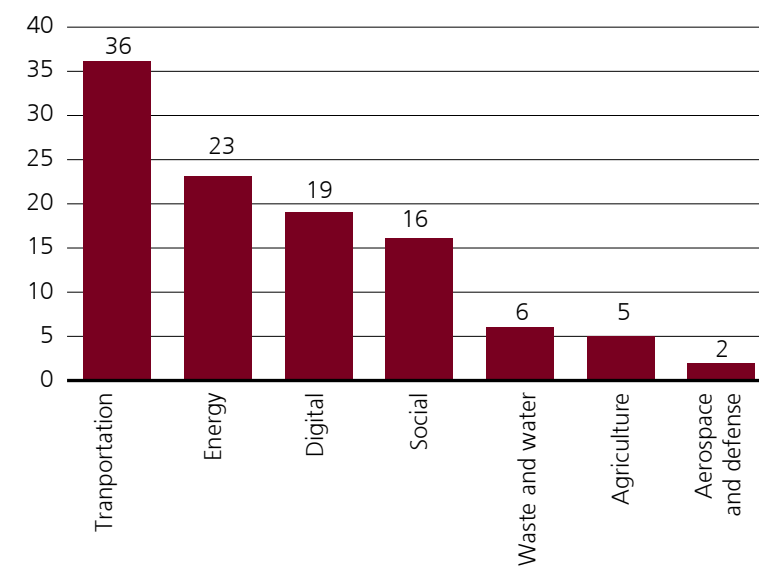
⁶ International Energy Agency, World Energy Outlook and Net Zero Roadmap reports.

Infrastructure in transition

Beyond this, a broader infrastructure renaissance is underway. Across developed markets, aging infrastructure systems – many built in the post-World War II boom – are reaching the end of their useful lives just as population growth and urbanization are placing new demands on these systems. .

Figure 6: By 2040, cumulative infrastructure investment could reach over USD 100 trillion

Total infrastructure investment projected through 2040, by sector (in USD tr)



Note: Big 4 Capex refers to the aggregate capex spend by Microsoft, Meta, Amazon and Alphabet.
Source: Bloomberg, UBS September 2025.

Cumulative global infrastructure investment could reach over USD 100 trillion by 2040.

Indeed, the American Society of Civil Engineers estimates that the United States alone needs USD 3.6 trillion in infrastructure investment over the next decade. Europe faces similar challenges, with estimates suggesting EUR 500 billion in annual investment needs through 2030. Asia's infrastructure gap is even more pronounced, with the Asian Development Bank projecting needs of USD 1.7 trillion annually.⁸

Traditional public funding mechanisms are proving inadequate. Government budgets, constrained by aging populations and rising debt levels, cannot meet these needs alone. Private capital is stepping in to fill some of the gap. This represents a generational shift in how infrastructure is funded and operated. Private capital isn't merely providing funding; it comes with operational expertise, technological innovation and the long-term mindset that the public sector often struggles to deliver.

The opportunities span traditional infrastructure (i.e., roads, bridges, airports) as well as new digital infrastructure like fiber optic networks and 5G systems. Increasingly, investors are focusing on mid-market opportunities where there is typically less competition and better pricing than with the mega-sized deals. Water treatment facilities, waste management systems and transportation assets are all also attracting significant private investment.

Investment access innovation

As alternative investments have matured and democratized, the vehicles through which investors access these strategies have also evolved. The traditional model – institutional capital committed to closed-end funds with 10-15 year term – is giving way to a more flexible ecosystem tailored to different liquidity, timing and control needs.

Structural innovation has today resulted in increased choice around liquidity, pacing and co-investment. A key innovation is the rise of evergreen, or perpetual, vehicles that allow continuous subscriptions and periodic redemption features at the often at the discretion of the GP. These funds help reduce vintage-year timing risk, potentially provide periodic partial liquidity options and simplify participation for smaller investors by eliminating capital calls and distributions.

Evergreen funds now span private equity, private credit, real estate, and infrastructure, including co-mingled secondaries and co-investment, offering diversified exposure. Yet managing liquidity features comes with trade-offs funds must hold liquid reserves that may suppress absolute returns and can impose restrictions, proration or queues during stressed periods – underscoring the limits of offering liquidity in private markets.

Investors seeking diversification across managers and strategies are turning to more sophisticated

multi-manager platforms. These go beyond traditional fund-of-funds by providing access to closed managers, negotiating better terms through scale and enabling more dynamic asset allocation. Some also incorporate co-investment and secondary opportunities, which can be especially valuable when targeting emerging managers or niche strategies.

Separately managed accounts (SMAs) deliver maximum customization while retaining professional management. Investors can set mandates, exclude sectors and maintain full transparency into holdings, making SMAs popular for ESG-focused portfolios and for managing concentration risk. To broaden access, "club" SMAs are emerging, allowing multiple investors with similar objectives to pool capital to reach the scale required for tailored portfolios.

For larger investors seeking control and potentially higher returns, co-investment platforms enable direct participation alongside general partners in specific deals, typically with lower fees. Investors can target preferred sectors, geographies or capital structures while retaining influence over deal selection.

Many limited partners now allocate a meaningful share of their private-market exposure to equity and debt co-investments, often relying on dedicated teams or specialized platforms to source, underwrite and monitor opportunities.



7 American Society of Civil Engineers, Infrastructure Report Card, 2025.

8 Asian Development Bank, Meeting Asia's Infrastructure Needs reports.

The role of artificial intelligence in investing

Artificial intelligence (AI) is only beginning to reshape private markets investing, but its direction is clear. By extracting insight from data at greater scale and speed, AI is changing how investors source deals, conduct due diligence and monitor portfolios, while automating many routine tasks. The potential can be seen in specific generative AI interventions like research analysis and production, through to more agentic forms where certain tasks and processes are automated. Deal sourcing in private markets has traditionally been relationship-driven. AI broadens this funnel by scanning large datasets to identify potential targets. Algorithms can assess thousands of companies at once, combining financial metrics, growth patterns, management changes, sentiment indicators and hiring trends to flag opportunities earlier.

In private credit and real estate, similar tools analyze cash-flow data, supplier relationships, demographics and development activity, as well as imagery and sensor data, to refine underwriting and market views.

Natural-language processing (NLP) is especially powerful in reviewing large document sets. In M&A due diligence, AI can analyze customer contracts to detect concentration risks or pricing

trends, while in private credit it can flag covenant breaches or unusual terms. AI can review thousands of legal, contractual and regulatory documents in hours rather than weeks, uncovering red flags much faster than manual reviews. Language models can also support financial modelling, evaluate cash flows and bring more consistency to assessments of management quality by analyzing track records and communication patterns.

Once investments are made, AI is reshaping how portfolios are monitored and valued. Rather than relying solely on periodic reports, investors can use operational what is this reference to? and alternative data to generate more real-time insights. AI-based valuation models integrate broader datasets and link company characteristics to historical transaction outcomes, providing more dynamic interim assessments. For risk management, AI can detect hidden correlations and systemic vulnerabilities across portfolios, highlighting concentration risks and interconnected patterns that may affect performance.

Although still at an early stage, AI's impact on private markets is likely to be significant. The competitive edge will sit with firms that integrate these tools thoughtfully while preserving the human judgment and relationships that remain essential to successful investing.

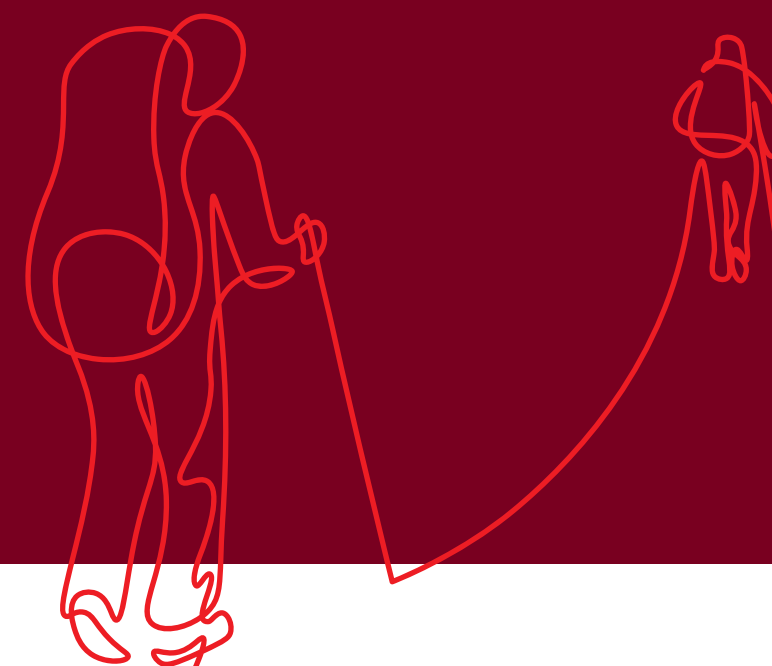
Alternative realities

For investors, the message should be clear. Adoption is expanding to a much broader swath of investors beyond those previously able to access private markets. In this new reality, alternatives are becoming central to portfolio construction, essential for meeting the return and risk objectives that traditional assets alone cannot provide.

The democratization of access opened the door; megatrends are creating the opportunities; and AI is providing new tools. What remains is the discipline to navigate this landscape successfully, preserving the value of the risk and illiquidity premia that define these asset classes while adapting to an increasingly competitive and scrutinized environment.

As the industry matures, the abundance of capital has impacted valuations and intensified competition for the best opportunities. But maturation also brings opportunities. The real value of alternatives is not simply diversification by asset class; it lies in the differentiated return profile they provide.

With the great portfolio reset well underway, the key question for investors is no longer whether to participate, but how to do so thoughtfully, strategically, and with the long-term perspective that alternatives require.





Embracing alternatives in a supply-driven world

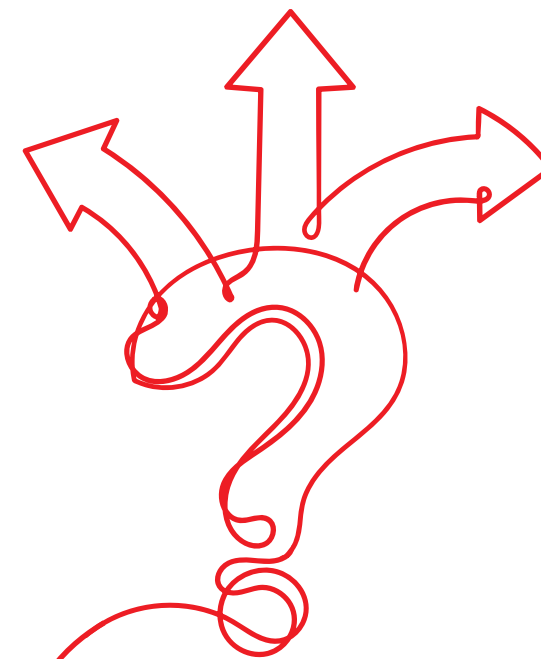


Evan Brown
Head of Multi Asset
Strategy



Ray Fuller
Head of Partnership
Solutions

Global markets are being reshaped by the return of supply shocks. From trade wars and labor constraints to the potential productivity gains of AI, supply is now setting the tempo for inflation, policy and portfolio risk. Evan Brown and Ray Fuller explore how alternatives can help reinforce portfolios and capture returns in this new world order.



For much of the past few decades, investors have operated in a world where demand-driven forces dominated economic cycles. But that world is shifting.

Today, supply-side dynamics exert far greater influence on growth, inflation and markets than many investors fully appreciate. Tariffs, reshoring, immigration policy, energy transitions and rapid AI deployment are reshaping the global economy. These forces don't just move prices; they expand the range of potential macro outcomes. This makes it harder to rely on traditional diversification strategies rooted in stable correlations and predictable demand cycles.

Negative supply shocks – whether from trade barriers, energy disruptions or labor shortages – can push inflation higher even as growth slows, limiting central banks' ability to respond. Consequently, both stocks and bonds can decline together, as seen in 2022, or bonds may simply offer less protection than they would in a pure demand shock. This stands in contrast to the negative demand shocks we have become used to, which allow central banks to lower rates, supporting bonds as stocks fall and providing natural diversification.

On the flipside, positive supply shocks – such as those driven by productivity gains from AI or regulatory reform – can boost growth and lower inflation.

Yet capturing the benefits of this will depend on how portfolios are positioned. History shows

that in major capital expenditure (capex) cycles like railroads or telecom, early perceived winners were not always the ultimate beneficiaries. Today, the companies most dominant in public indexes (as well as some large private firms) are also those committing the largest capital outlays. We believe investors should take a thoughtful, diversified approach to gaining exposure to productivity gains.

Historic supply shifts are generating a much wider range of inflation, growth and market outcomes than in the pre-COVID cycle. In short, portfolios need to adapt.

Beyond labels: Moving from asset classes to asset characteristics

Predicting how shifts in supply will impact economies and markets is difficult. The inherent estimation error – where small deviations in inputs can lead to vastly different and often unstable portfolios – can be amplified in a supply-driven world. Historical correlations, particularly the diversifying relationship between stocks and bonds, can become unreliable when supply shocks occur.

A more robust approach to building portfolios (one that can withstand a wider range of unknown future states) is needed.

Rather than relying on a single forecast, investors should prepare for a range of scenarios. In negative supply shocks, assets with explicit inflation pass-through and liquid macro

strategies can help defend real value and add diversification. And in positive supply shifts, assets tied to infrastructure or data connectivity and private companies implementing process improvements can stand to benefit.

Alternatives can also play a vital role in the middle ground, diversifying exposures beyond lofty public equity valuations and core bond yields.

Embracing such uncertainty is a wise second step toward constructing more robust and resilient portfolios. This approach shifts the focus from ‘assets I want to own’ to ‘exposures I want to have,’ deconstructing assets into their underlying risk factors and economic attributes.

Applying this perspective changes how we view assets within a portfolio. For example, infrastructure moves from simply being an alternatives allocation to representing inflation-linked cash flow exposure.

Building allocations and portfolios in this way – often referred to as a ‘total portfolio approach’ – offers a clearer picture of actual return drivers and potential resilience to economic shocks. It provides a more precise and holistic view, revealing unintended risk concentrations and highlighting diversification gaps that traditional asset class labels may obscure.

Allocations should be sized according to objectives, risk tolerance and liquidity needs. Adding sleeves that have cash flows and risk drivers aligned with a supply-uncertain world, can better cushion portfolios against inflationary shocks, participate in productivity-led gains and access assets not captured by public markets.

Let’s look at the underlying characteristics of each alternative asset class in turn.

Infrastructure

Infrastructure assets often have consumer price index (CPI) linked or regulated revenue formulas, helping preserve real cash flows when inflation rises due to supply shocks. During the 2021-2022 inflation spike, many regulated utilities and toll roads maintained or increased distributions.

At the same time, infrastructure is the place where AI-era buildout becomes tangible: transmission lines, substations, flexible generation, storage and interconnectors are the pipes and wires that enable digital scalability and electrification. Indeed, investors concerned about the return on investment (ROI) of hyperscaler capex can still benefit from the AI buildout without necessarily worrying about how the grid upgrade is ultimately used – especially since these upgrades were long overdue even before the current AI growth.

Infrastructure therefore speaks to all three roles: cushioning inflation shocks, benefiting from capacity expansion and accessing assets largely outside public indexes.

Real estate

Real estate is not a monolith. The way inflation shows up depends on lease structure. Shorter duration leases – hospitality, self-storage and many residential formats – reset rents faster and can keep income closer to the price level. Some ground leases and specialty properties include explicit CPI escalators.

On the supply expansion side, the most visible theme is datacenter real estate, where proximity to power and interconnections has become a hard constraint; logistics near reshored manufacturing corridors is another. These are local, specialized assets that broaden the investable universe and connect directly to the supply map of the economy.

Private credit

Private credit has grown because it solves practical problems for borrowers – speed, structure and flexibility (especially when banks are cautious or timelines are tight). In a world of supply chain realignment and operational upgrades, that flexibility backs capex, acquisitions and refinancing tied to productive investment. Many loans are floating-rate, so coupons adjust when inflation stays firm, providing a degree of income ballast. The category also expands the opportunity set by opening up cashflow streams that rarely appear in public markets.

Private equity and growth/venture

If AI and process innovation are going to lift productivity meaningfully, much of the early value creation will happen at private companies. Sponsors don’t just fund; they help install new processes, software, automation and pricing discipline. Indeed, private equity aims to capture returns that appear before or differently from public markets. It is a direct play on the benefit role and, secondarily, a way to broaden exposure to the economy’s evolving "picks and shovels."

Hedge funds
(macro and relative value)

In supply-driven markets, rates, commodities and currencies – the assets where macro strategies live – tend to be volatile. When tariffs shift trade flows, or when labor or energy constraints alter inflation expectations, those changes cascade into yield curves, commodity term structures and exchange rates.

Strategies that can go long or short across these markets can help restore diversification when stocks and bonds move together. They are also an avenue to expand the opportunity set, tapping return sources not tied to equity or credit beta.

Redefining the role of alternatives

For decades, markets were driven mainly by demand. Supply was relatively stable due to globalization, cheap labor and abundant energy. Now, markets have changed. Supply-side pressures are back, and in persistent and unpredictable ways. But seeking protection for portfolios is still possible. Allocations to alternatives can build resilience and balance in portfolios.

Figure 1: Summary table: how alternatives can increase the robustness of portfolios

Alternative sleeve	Cushion inflation	Benefit from supply expansion	Broaden opportunity set
Infrastructure	✓ – CPI-linked/ regulated revenue	✓ – Grid – Transmission – Digital infrastructure	✓ – Essential networks outside public indexes
Real estate	✓ – Short leases – CPI escalators	✓ – Data centers – Logistics – Specialty assets	✓ – Local/specialized assets
Private credit	✓ – Floating-rate income	✓ – Capex/refinancing for supply-chain upgrades	✓ – Bespoke lending
Private equity	✗ – Indirect via operations	✓ – AI – Automation – Process re-design	✓ – Ownership of niches ahead of public markets
Hedge funds	✓ – Long/short in rates – FX – Commodities	✗ – Indirect policy-driven re-ratings	✓ – Diversifiers not driven by equity/duration beta

Source: UBS Asset Management. November 2025.

In a world of heightened uncertainty and 'fat tail' risks, a robust portfolio is often preferable for its anti-fragile properties, even if it sacrifices headline risk-adjusted returns. Within such a portfolio, sourcing specific targeted outcomes – such as inflation sensitivity and factor exposures – elevates alternatives from a peripheral role to an essential core component, in many cases delivering what public markets cannot reliably provide.

Traditionally positioned as satellites to public assets, alternatives were merely seen to provide additional diversification and alpha. While these benefits are still valuable, a modern, characteristics-based approach to portfolio construction recognizes that the goal is not a single 'optimal' portfolio. Instead, allocations to alternative assets can be part of constructing a more robust portfolio; one that is designed to perform reasonably well across a wide range of economic environments and withstand shocks, rather than perform only in a 'goldilocks' scenario.

Now, the gap between winners and losers is widening. Companies, sectors and even countries that can adapt to supply constraints and capitalize on new opportunities will likely pull ahead. Others risk falling behind. This heightened dispersion creates fertile ground for alternatives, amplifying their role in the portfolio as both a defensive shield and a strategic engine for capturing upside.



Engineering alpha at scale

Jon Glidden on
Delta Air Lines' pension
turnaround and what
alternatives can deliver



Jon Glidden
CIO of Delta Air Lines



Edoardo Rulli
Head of Unified Global
Alternatives – Hedge Funds

Edoardo Rulli interviews Jon Glidden, CIO of Delta Air Lines

When Delta Air Lines hired Jon Glidden as chief investment officer in 2011, the company's pension plan was deeply underfunded and widely seen as a structural liability. Over the following decade, Glidden led one of the largest and most successful pension turnarounds in corporate history – transforming a 42% funded plan into a surplus position above 100%. He did so not by following convention, but by embracing a high conviction approach grounded in portable alpha, robust risk governance and a deliberate portfolio design built on alternatives.

Today, Delta's USD 16 billion pension fund is viewed as a model of modern portfolio construction. At the heart of that story lies a belief that alpha, when achieved through discipline and scale, can be a consistent and sustainable driver of long-term outcomes.

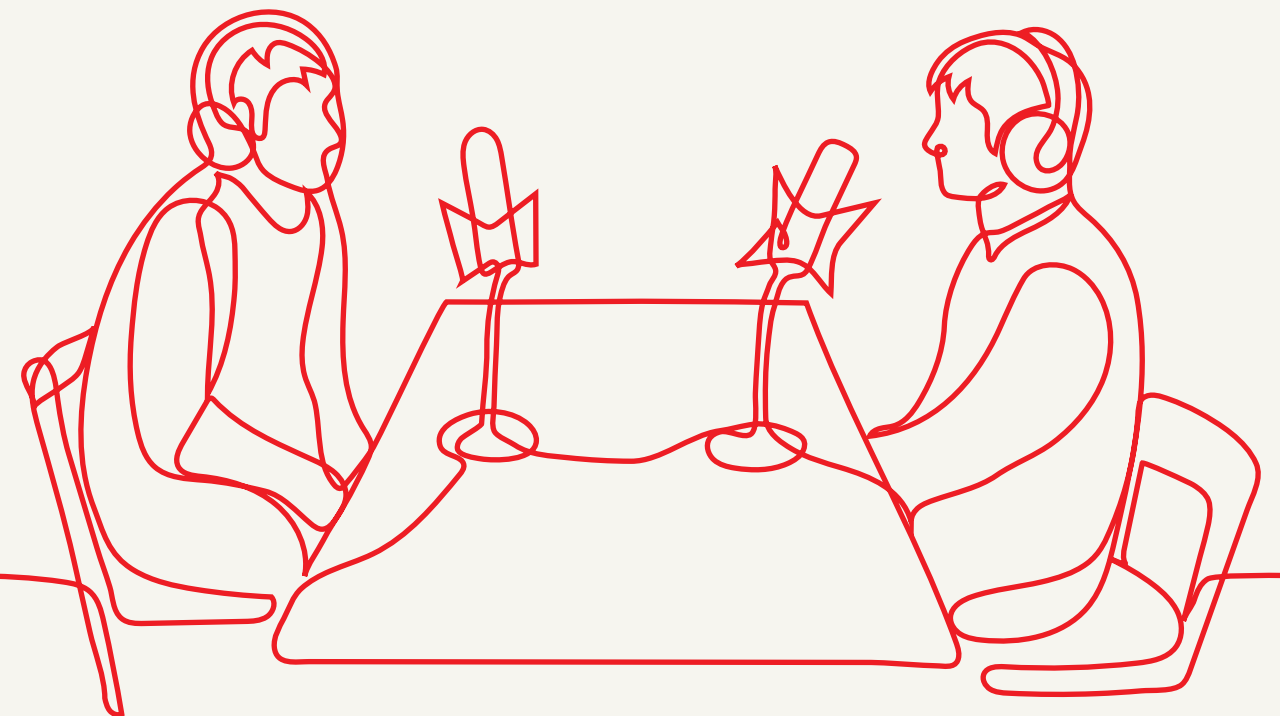
In this interview, Edoardo Rulli speaks with Jon Glidden about how alternatives – from hedge funds to private markets – played a central role in Delta's journey, and what asset owners and allocators can learn from his approach.

Jon, take us back to 2011. What was the starting point when you joined Delta – and what kind of challenge were you stepping into?

At the end of 2011, Delta's pension was over USD 13 billion underfunded at a time when the market capitalization of the plan sponsor was USD 7 billion. A second bankruptcy was a distinct possibility. It was clear that it would take operating profits based on the hard work of Delta employees, a dynamic contribution policy from the plan sponsor and a highly efficient and effective investment strategy capable of generating meaningful alpha to get the pension back to fully funded. It's been a white-knuckle ride at times. But my team has been honored to have been a part of the solution.

How do you think about asset allocation and portfolio construction?

We believe that it is more risk-efficient to apply leverage to a balanced portfolio than to run a traditional 70/30 allocation where the risk is highly concentrated in the equity factor, especially when the consequences of a drawdown could be dire. Applying leverage through derivatives also allows for the separation of alpha and beta, which is a hugely important part of our success. Risk and liquidity management become more important once you incorporate leverage. I think leverage, when used for the purpose of a higher Sharpe ratio and more diversification, is the most underutilized tool among asset allocators.



Let's talk hedge funds. How did you structure your portable alpha program, and what role does it play today?

A fundamental target from the very beginning is that we needed 200 bps of alpha annually, and pretty consistently, to increase the odds of success in getting the pension on a more stable footing.

One consequence of being deeply underfunded is that your spending rate is high, which limits how much you can have in private assets. Long-only stock and bond managers have a mixed track record, so we used hedge funds in a portable alpha context to aggressively pursue benchmark outperformance. We don't view hedge funds as an asset class, but rather as an ideal source of active risk. We use derivatives to synthetically replicate 50% of our asset allocation. We pair that with 10% cash and 40% hedge funds. If hedge funds can outperform the implied borrowing cost by 300 bps you get 120 bps of plan-level alpha. We have exceeded this pace over the past 12 years through a diversified basket of about 40 market-neutral hedge funds.

What about private markets? How did they contribute – and how did you manage risk across such an illiquid allocation?

Given our spending rate, we are sensitive to the duration of a private portfolio. We have a 25%-30% allocation to diversified private assets. We target 13% private equity, 10% private credit, and 6% private real assets.

In addition to the shorter duration nature of private credit, we also implement private equity and private real assets using 50% primaries, 30% secondaries, and 20% co-investments. This mix was helpful in mitigating the J-curve (or the tendency to experience negative returns in the early years of a closed-end fund's life) and served to accelerate the return of cash flow. We target the outperformance of public markets by 300 bps. At a 30% allocation, this is an additional 90 bps of alpha and, when combined with portable alpha hedge funds, we get to our 200+ bps total plan alpha.

We don't view hedge funds as an asset class, but rather as an ideal source of active risk.

The 2020 COVID crisis must have tested everything. How did the portfolio hold up, and what did you learn?

In the early days of Delta's pension turnaround, our derivative overlay hinted at risk parity but was tilted toward equity exposure.

Delta has done a great job of diversifying its revenue streams as an enterprise, but the airline business remains volatile. We expected there might be a correlation between an equity market drawdown and Delta's free cash flow. So, we prioritized hedging and liquidity management when our plan-level equity beta was above 0.5.

There were four major components to our hedging program that combined to have an 8% allocation. We had a 60-bps annual spend budget for direct hedging, which was typically 90/75 put spreads. We owned out-of-the-money call options on two-year Treasuries, which was a tail hedge for our liabilities and an indirect crash hedge for equities. We also worked with a few long-volatility managers that tried to balance the convexity vs. bleed trade-off. Finally, we had several separately managed accounts with trend and macro managers.

COVID certainly stressed the program, with equities down 35% in five weeks and Delta's revenue down over 90% as travel nearly ground to a halt. But the hedging program worked. We liquidated the option-based strategies for huge gains in late March 2020. We also completely unwound the long-volatility portfolio after greater-than-expected gains. We liquidated about half of a commodity trading advisor (CTA)/macro SMAs to shore up liquidity. We were able to hold on to all intended alpha and beta and finished the year with solid returns and alpha as markets came back.

It was a dicey time, but the plan worked. We added a line of credit to the hedge fund portfolio as an additional degree of freedom to help with future drawdowns.

Governance seems like a recurring theme. What made Delta's governance structure so enabling for this strategy?

If you are going to run a portfolio that is somewhat atypical and has an element of complexity, it is essential to have all stakeholders aligned on strategy and governance. I've been very fortunate to have that at Delta. The chief financial officer (CFO) hired me and was my boss. My team devised the hedging program alongside the CFO and the president (now CEO) of the company.

The mantra for Delta's governance has been to define success (and be consistent; no moving the goal posts) and build guardrails around the process. Subject to these rules, my team has a tremendous amount of discretion to manage the portfolio on a day-to-day basis. This was crucial during the COVID period. We define success through ex ante alpha targets and tracking error/information ratio estimates for every investment we make, as well as every composite. This includes hedge funds. In terms of guardrails, we have defined a green/yellow/red zone structure around key metrics, with cash and leverage levels being two of the most important examples.

When facing an unusual problem, it is important to get other perspectives. Delta's CFO at the time knew that every link in the governance system didn't fully understand the pension implementation. He insisted that we work with external strategic partners that could look for weaknesses and opportunities for improvement in our asset allocation and risk management programs. I have been fortunate to work with some great individuals and organizations over the years who were critical in helping Delta engineer the pension turnaround.

What's next? How are you positioning the fund now that it's fully funded?

In a sense, the plan hasn't changed that much since the beginning: a 40% allocation to hedge funds, a 30% to privates, then round out the heavy alternatives allocations with diversifying liquid mandates, and trade a beta overlay on top of the portfolio. That is still what we do today. However, the beta overlay shifted from being equity-centric to being focused on liability-hedging as our funded status improved and our return target fell from 9% to 7%. We don't hedge nearly as much today since our beta is much lower.

Delta remains a fantastic place to work. They remain open to untraditional solutions. Pension legislation has evolved a lot since the passage of the Pension Protection Act in 2006, in ways that stabilize funding risk and raise the value of pension surplus for plan sponsors. The window is open for a second act at Delta. The path forward is, broadly, either to sell to an insurance company or to try to be the insurance company. Pensions have a regulatory advantage relative to life insurance companies. Delta contributed over USD 11 billion to the pensions between 2012 and 2021. I'm hopeful we can use the alpha generation potential of the pension to build a significant pension surplus, which can be monetized to benefit both the plan sponsor and the employees of Delta Air Lines.

What would you tell other CIOs or allocators exploring alternatives as a core component of their portfolios?

It is an expensive way to manage money, and risk management is critical. It is important to have quantitative and qualitative ways to measure the success of your managers.

Are you getting value, and more specifically alpha, for the fees you pay? How do the pieces fit together? What is likely to happen during a period of stress? How should you hedge? What is the contingency plan? What will you do when things get difficult?

Write it all down and cover the answers with your governance structure frequently. A crisis is no time for education; it is a time for action. I have been very fortunate to have all stakeholders aligned on the direction of pension strategy.

You've said you "love" alpha. What keeps that passion alive after more than a decade in the role?

Two things. First, I've got a competitive side. I like to win. For better or worse, financial markets attract some of the world's best talent in a highly competitive and dynamic environment. I love the challenge of implementing a differentiated vision that I think is capable of materially outperforming benchmarks and peers over time. There is a scoreboard every month and every year. I like the mental challenge of being able to speak to some of the very smartest people in the world daily. I think our information ratio will compare very favorably to most asset allocators.

Second, I am humbled by our mission. My team is also charged with overseeing the investment choices of Delta's 401k plans. Combined, our team helps manage USD 55 billion on behalf of nearly 250,000 past and present Delta employees. We are in the retirement business. The decisions we make can impact the timing and quality of retirement for these employees. It is an awesome responsibility and one that we don't take lightly. After 14 years, you can see alpha make a difference in the lives of people around you.

Looking back, what are you most proud of in this journey – and where has innovation played the biggest role?

It's always a people business and a team sport. I am continually amazed by the dedication and professionalism of my team at Delta. The core of the team has been together since the beginning, through the good times and the bad.

Every voice has been critical, especially in the high-stakes early days of the turnaround. How do we tell the story? How do we design the materials to make complexity simple? How do we keep stakeholders aligned? Perhaps most importantly, when am I wrong? Or, where is there a better way to invest the assets? I try to inspire a culture of constructive conflict. I am tremendously proud of my team, their creativity, their attention to details, their consistent excellence and their ability to make me look good.

It is hard to innovate in institutional investing, and I'm not sure we have at Delta. Weyerhaeuser ran portable alpha well before we did. But there is something to be said for the subtle innovation that is required to run one of the largest portable alpha programs through

some trying times. I think it is the scale and longevity that sets us apart. I think there is innovation to our hedging and our risk and liquidity management. I think we have pioneered strategies and implementations to improve capital efficiency. The pods (investment shops that allocate capital to multiple portfolio managers) have been some of the most successful investors in history; there are lessons to be learned.

It's always a people business and a team sport. I am tremendously proud of my team, their creativity, their attention to details, their consistent excellence and their ability to make me look good.



When credit demand follows supply



David Mechlin
Head of US Liquid Credit,
Credit Investments
Group

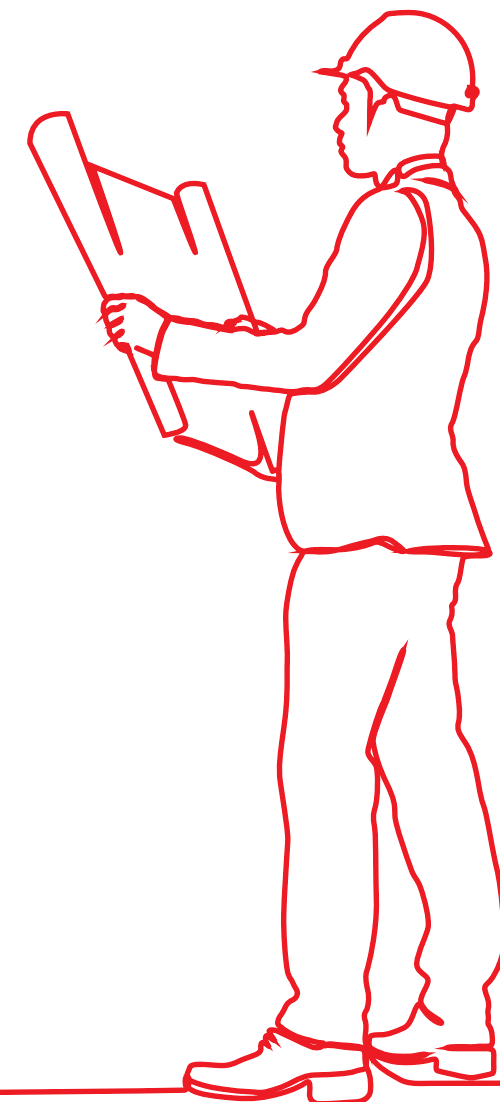


Eileen Liu
Head US Client Portfolio
Management, Credit
Investments Group

Corporate issuers are increasingly traversing the global credit markets to optimize their funding strategy. Investors should adopt the same mindset, argue David Mechlin and Eileen Liu.

In today's credit markets, yields remain attractive, there are signs of further market growth and investors continue to seek income. Yet behind these familiar themes, the lines between syndicated loans, high yield, illiquid credit and CLOs are increasingly blurred. Issuers and investors alike are moving fluidly across these segments, reshaping the structure of global corporate credit markets.

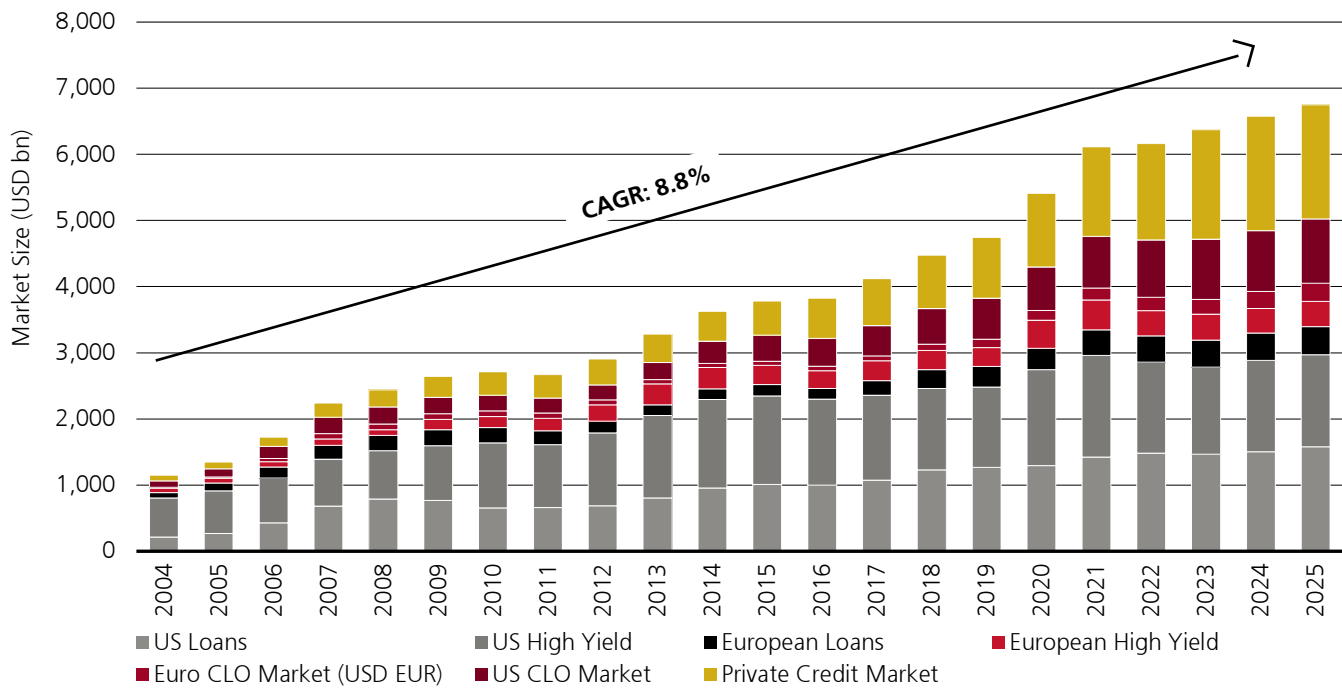
This evolution prompts a key question for allocators: If issuers now operate across a continuum of markets, shouldn't portfolios be constructed to reflect the same? However, before reaching any conclusions for investors, we need to look at the macro backdrop and issuer behavior.



Supportive macro backdrop

As figure 1 clearly shows, non-investment grade credit markets continue to see growth, with issuers needing financing and investors seeking yield.

Figure 1: Growth of non-investment grade credit markets

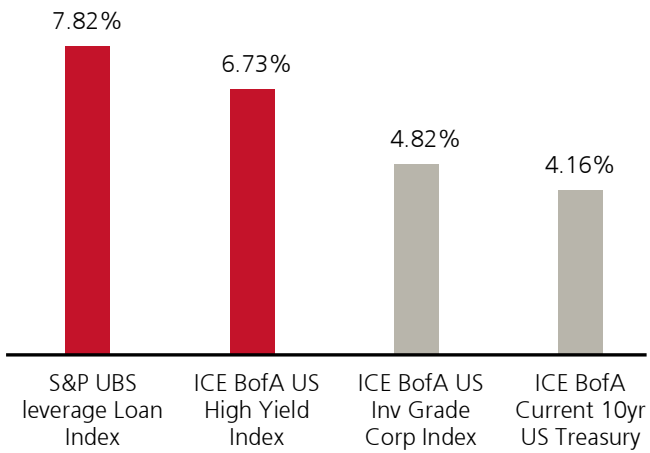


For illustrative purposes only. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: UBS, Morningstar LSTA, ICE BofA, Preqin. Private credit market data as of 31 March 2025, and all other data as of 30 June 2025.

Despite this strong investor demand, yields in non-investment grade credit remain attractive, and sustained tailwinds remain in place.

Figure 2: Yields in non-investment grade credit (US)

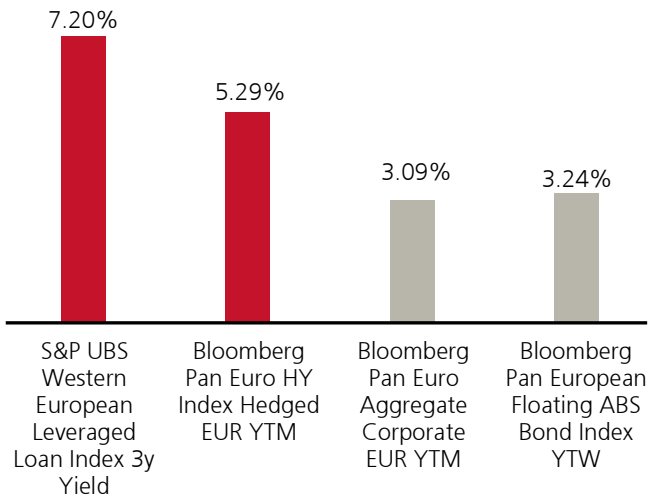
Yield (in %) : US (in USD)



For illustrative purposes only. Historical performance indications and financial market scenarios are not reliable indicators of current or future performance. Source: UBS, ICE BofA, Bloomberg. Data as of 30 September 2025.

Figure 3: Yields in non-investment grade credit (Europe)

Yield (in %) : Europe (in EUR)



Looking ahead, monetary easing and the prospect of rate cuts are also strengthening fundamentals and improving refinancing conditions. As a result, we expect net new issuance to increase into 2026 as M&A activity has the potential to return.

Dynamic issuer behavior

Corporate issuers are no longer bound by traditional financing silos. Large corporates are arbitraging funding costs and liquidity access across public and private markets, and even across regions. They decide when and where to raise capital, balancing considerations of cost, tenor, structure, terms and investor appetite. In both the US and Europe, there is a rising preference for flexible, opportunistic issuance, whether through syndicated loans, high yield bonds or illiquid credit.

Corporate issuers are no longer bound by traditional financing silos.

While there may be a natural tendency for larger public names to issue high yield bonds, and sponsors to tap the loan market, there is increased convergence with issuers using multiple markets over the life of the credit. This convergence reflects sophisticated deal syndication strategies, cross-market participation and the continued growth of investment vehicles like collateralized loan obligations (CLOs). While not an asset class issuers access directly for financing, the CLO market has continued to grow (at an 11% CAGR for the past decade¹), thus supporting demand for loan issuance.

Essentially, the increased sophistication of issuers has reshaped credit markets into a lattice-like ecosystem where multiple debt instruments interlock.

1 Source: UBS, J.P. Morgan. Data as of 31 October 2025.

Harnessing the ecosystem

To answer our initial question: Yes, portfolios should now operate across the full continuum of credit markets, just as issuers do. Indeed, traditional single-sector strategies are giving way to multi-sector approaches that can reallocate dynamically as opportunities shift alongside issuer borrowing optimization.

Agile investors can tactically rotate capital, exploiting temporary mismatches in liquidity and relative value between these various asset classes. They can take advantage of technically driven sell-offs, or shift when markets signal compression. This blending of syndicated loans, high yield bonds, less liquid loans and CLOs into a diversified portfolio means multi-asset credit strategies can offer attractive risk-adjusted returns without necessarily increasing credit risk.

Adaptability allows investors to respond effectively to evolving market conditions and capitalize on emerging opportunities. Diverse yield sources and dampened volatility compared to single-sector strategies can be obtained as a result.

Portfolios should now operate across the full continuum of credit markets.

The need for active management

There is a clear need for investment acumen in these specific asset classes, as well as structural expertise to manage the access vehicles.

Given the nature of non-investment grade credit, fundamental credit analysis is key. Investors allocating to these markets require a deep knowledge of the borrowers they are lending to. This includes understanding deal structure, the quality of the underlying borrower and the economic drivers and competitive positioning in the relevant sector.

Having a team with the relevant expertise, as well as the scale to cover issuers across the capital structure in all sectors and geographies of this USD 6 trillion² opportunity set, is crucial. The active part of management is not only the fundamental analysis, but also the ability to adapt and actively trade as relative value shifts between asset classes. Strategic rebalancing – rotating capital across the liquidity spectrum in response to market and issuer signals – can optimize outcomes while managing risks. Active management becomes essential, not only to identify mispriced credit opportunities across segments, but also to dynamically manage exposures, aligning with a client’s broader risk-return framework.

Fundamental credit analysis is key.

Separately managed accounts, interval funds, hybrid wrappers, private vehicles and co-investment sleeves are all access points for investors to consider when seeking the right manager. Desired risk/return, liquidity and fees will influence investors in terms of structure and how they access credit. Managers should continue to evaluate how to best provide optimal structures to minimize certain asset class inefficiencies.

A dynamic response

Multi-asset credit (MAC) strategies exemplify this shift in action by combining syndicated loans, high yield, less liquid loans and collateralized loan obligations (CLOs) into a single portfolio.

This approach offers attractive risk-adjusted returns by capturing diversified sources of yield and reducing volatility relative to single-sector strategies. It also provides tactical flexibility, as actively managed portfolios can rotate between credit segments in response to evolving market dynamics. With credit risk converging across asset classes, a MAC strategy broadens the opportunity set, expanding the range of investment possibilities without increasing overall credit risk. Additionally, MAC strategies

Actively managed portfolios can rotate between credit segments in response to evolving market dynamics.

offer liquidity and accessibility, giving institutional investors diversified exposure while maintaining periodic liquidity through commingled or separately managed account (SMA) structures.

Together, these characteristics make MAC a natural fit for investors seeking both resilience and responsiveness – qualities that are increasingly essential in today’s converging market environment.

Investing where markets are going

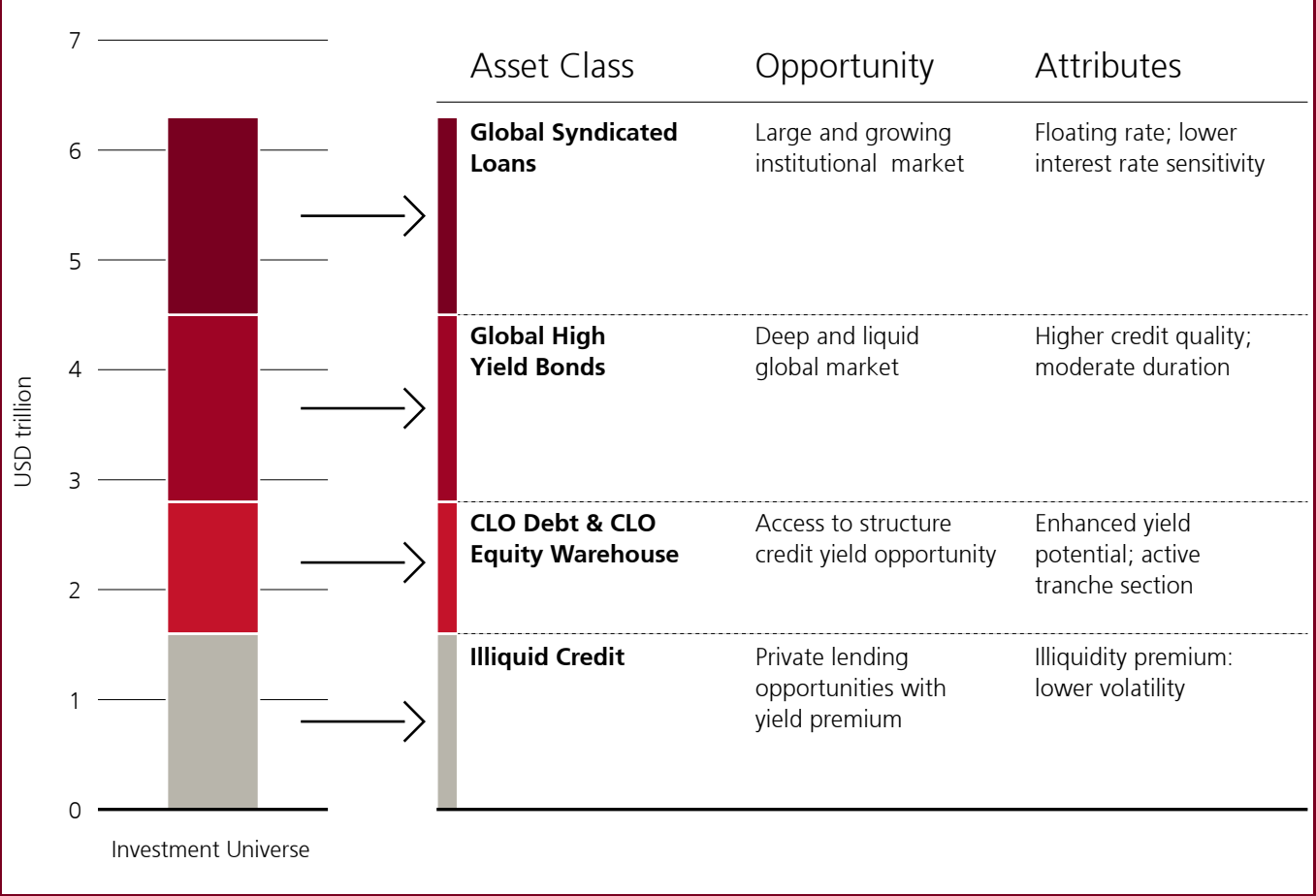
The convergence of liquid and illiquid credit is reshaping how supply and demand meet. Borrowers effectively arbitrage their financing needs between syndicated loans, high yield, private credit and by extension CLOs³, blurring long-standing boundaries.

The future of credit relies on understanding the ecosystem of fixed, floating, liquid, illiquid and structured asset classes.

Investors who align their approach with this new reality through multi-asset credit strategies can position portfolios to capture opportunity wherever it emerges along the continuum of global credit.

The future of credit relies on understanding the ecosystem of fixed, floating, liquid, illiquid and structured asset classes.

Figure 4: Multi-asset credit: A >USD 6 trillion⁴ global market
A broad and flexible approach across the credit spectrum



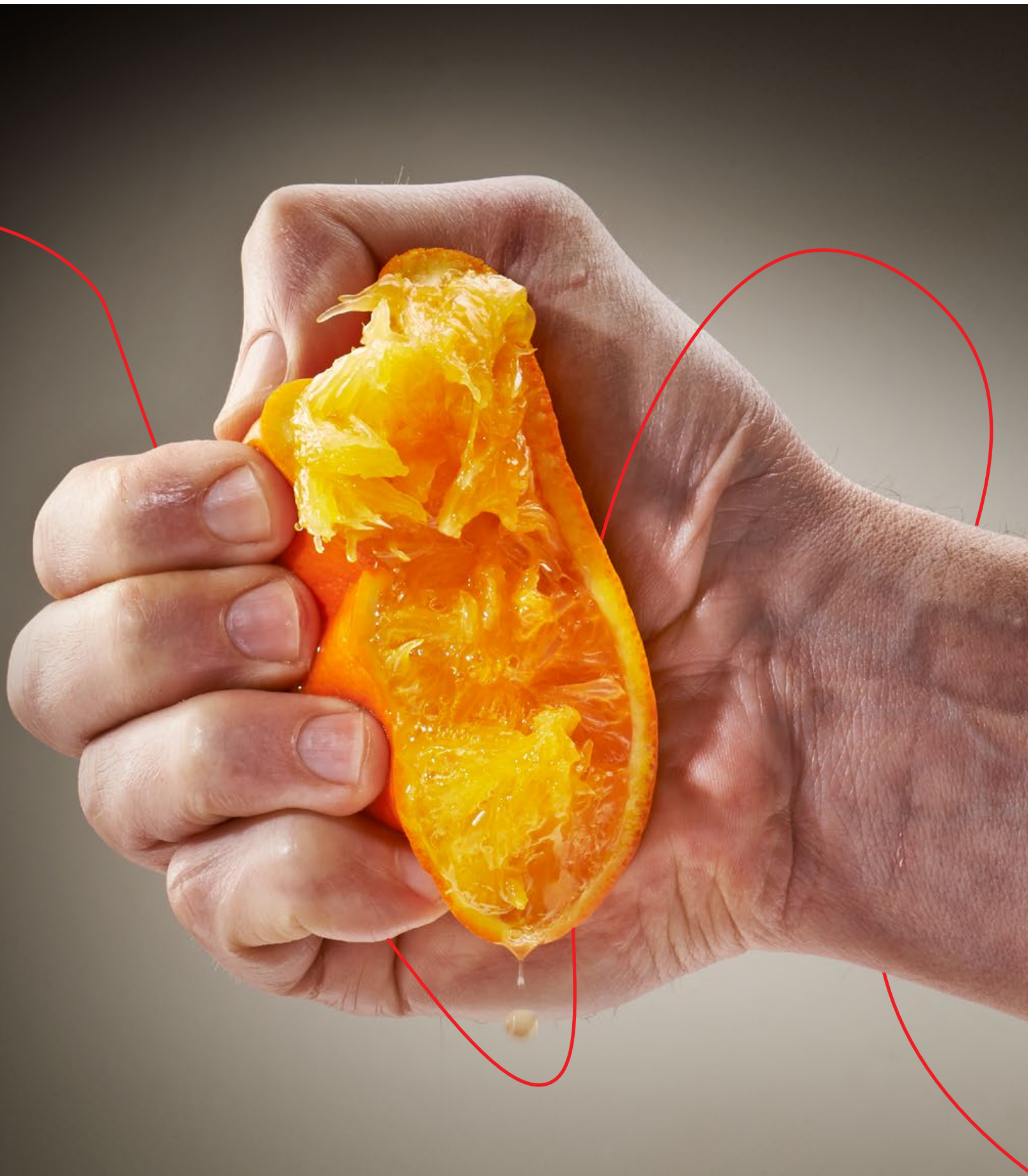
For illustrative purposes only.

³ For investors, CLOs offer credit exposure across all tranches, thus allowing one to move up or down the loan risk/return spectrum.

⁴ Source: UBS, Morningstar LSTA, ICE BofA, Preqin. Data as of 30 June 2025.

² Source: UBS, Morningstar LSTA, ICE BofA, Preqin. Data as of 30 June 2025.

Is the hedge fund juice still worth the squeeze?



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How evolving fund structures, investor requirements and cross-asset innovation are reshaping the hedge fund value proposition.

Over the past two decades, hedge funds have been declared dead, reborn, disrupted and reinvented more times than most investors can count. Yet in 2025, the debate continues: are hedge funds still worth their complexity and cost?

This question cuts to the core of how allocators think about risk, liquidity and the boundaries between traditional and alternative allocations. Multi-strategy platforms continue to expand, becoming more and more like global asset managers, while specialized single-strategy funds fight to prove their worth in an environment where alpha is scarce and investor patience short. Meanwhile, fund-of-funds (FoHFs), once the default gateway into hedge funds, must justify their relevance in a price-conscious world that prizes direct access, as well as operational and cash efficiency.

What emerges is a more sophisticated industry that is simultaneously consolidating and fragmenting, becoming both larger and more niche.

Industry's bifurcation

If the previous decade was one of survival, the current one is about divergence. Hedge funds are essentially polarizing into two archetypes:

- **Mega multi-strats:** complex platforms managing tens of billions across numerous teams and integrating risk management, liquidity provision and data infrastructure at scale.
- **High-conviction boutiques:** single-strategy funds with tightly defined specialisms in macro, credit or relative value, often capacity-constrained but nimble and opportunistic.

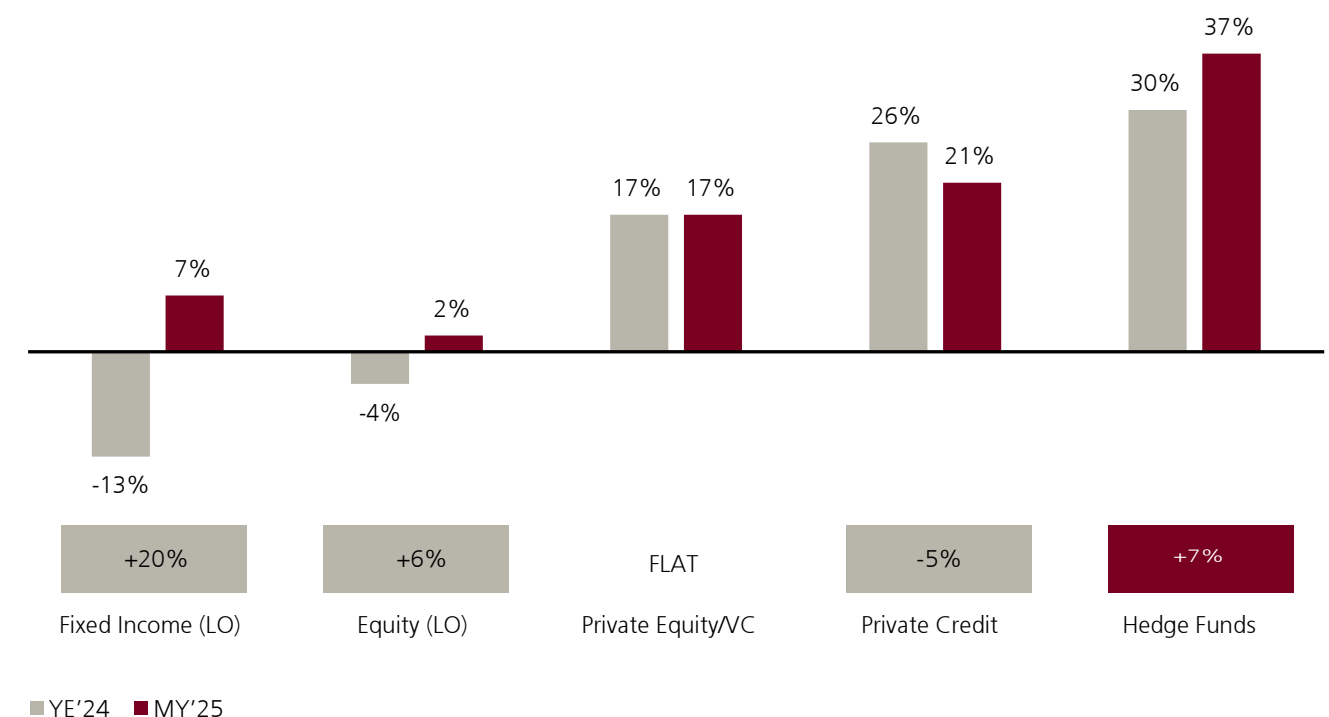
Scale has become both a moat and a mandate. Regulatory costs, compliance demands, competition for talent and the operational

expectations of institutional investors have raised the barriers to entry for new launches. To attract serious institutional capital a hedge fund needs institutional infrastructure: top tier investment analytics, data pipelines including standardization and cleaning processes, cybersecurity protocols, robust risk frameworks that are integrated into trading systems, and CFO-grade reporting.

This favors multi-strategy giants. Their economies of scale allow for sophisticated analytics, cross-strategy capital allocation, competitive talent recruitment and deep operational resources. However, their size can also come at a cost, making it harder to remain agile or foster genuine innovation.

Figure 1: Allocators continue to allocate to hedge funds

Net investor allocations plans (2H25 vs. 1H25), % of respondents



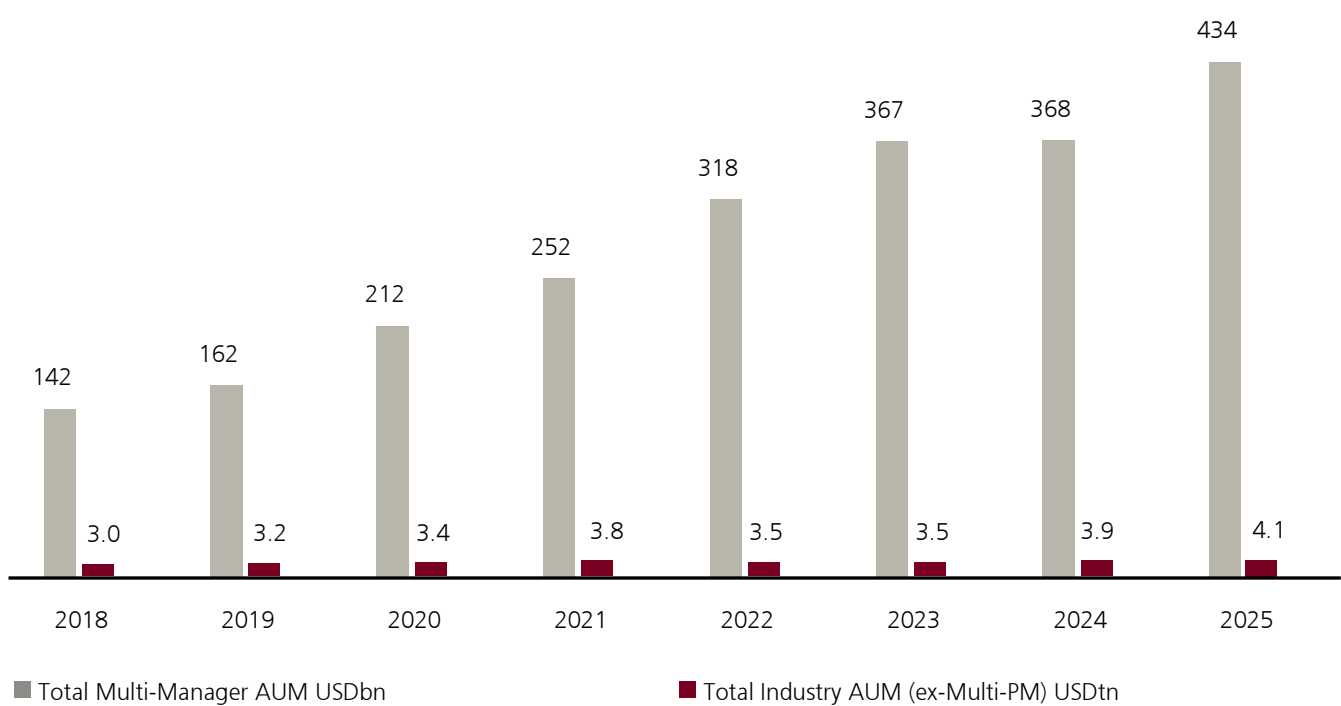
Source: Barclays Strategic Consulting Analysis, HFR, UBS as of September 2025.

The rise and strain of the multi-strategy model

Multi-strategy platforms have been the main driver of hedge fund AuM growth. Today, the largest of these firms increasingly resemble diversified asset managers – operating through multiple internal and external trading teams – rather than traditional hedge funds.

Their model offers clear advantages: stable infrastructure, diversified earnings and disciplined risk budgeting. The ‘pod’ structure gives talented portfolio managers a home where they can focus on alpha generation without the distraction of running a business.

Figure 2: Multi-managers are growing strongly again after a muted 2024



Goldman Sachs, Prime Insights & Analytics, The Multiplier Affect, October 2025.

Yet success breeds new challenges. As multi-strats have grown, so have the demands of their investors. Fee pressure is intensifying: pass-through cost models are becoming the norm, and competition for talent is fierce. Multi-strat managers must continuously recalibrate how much autonomy to grant their PMs while maintaining firm-wide risk coherence. Too much freedom risks correlation spikes in stress regimes; too little and the best traders migrate away to start their own funds or join more flexible platforms.

Moreover, as these firms expand into new asset classes – commodities, credit, quant and even

private markets – the complexity of managing cross-strategy risk multiplies. Integrating a credit relative-value sleeve or a systematic macro book requires not only capital but deep domain expertise and a culture of shared discipline.

The question for allocator's is no longer whether multi-strats work; they do. But which ones justify their rising cost structures, lengthening liquidity terms and limited capacity. It's the allocator's job to make sure these critical distinctions, more so than ever.

Single-strategy funds: Adapt or perish

At the other end of the spectrum, single-strategy hedge funds face an identity crisis. The pure-play macro or event-driven fund that once thrived on volatility now contends with an uneven opportunity set and investors with shorter time horizons.

Delivering alpha in today's environment requires two things: differentiation and adaptability. The best single-strategy managers are leaning into specialization (distressed credit in niche geographies, energy transition trades or complex merger spreads) and embracing technology to enhance execution and research depth.

But survival depends equally on flexibility. The volatility of the 2020s has not rewarded static mandates. Managers must be able to toggle exposures dynamically depending on where the opportunities lie in the prevailing market environment.

For allocators, the attraction often lies in their purity. A single-strategy fund can provide uncorrelated exposure to a specific risk premium that even the largest multi-strategy funds can't replicate internally. These can be sized up or down into specific opportunities or market cycles, allowing allocators to add more tactical value to their core portfolios. The trade-off can be higher volatility, limited capacity, and occasionally, headline risk.

The reinvention of fund-of-funds

For many investors, fund-of-hedge-funds were the original entry point into alternatives. Today, they are being forced to redefine their core purpose. Simply offering diversification is no longer enough when investors can access top managers directly or through managed accounts.

The leaders have evolved into multi-alternative allocators, offering strategic access and early-stage exposure that even large institutions struggle to source. Their value proposition is shifting from aggregation to curation.

They can access closed funds, negotiate bespoke terms, and implement overlays like tail-risk protection or dynamic rebalancing that smooth volatility across portfolios. Their global networks and institutional relationships allow them to spot emerging talent before the crowd does, and to structure investments with favorable liquidity or fee terms.

At the same time, FoHFs increasingly serve as strategic partners to multi-strats. One way is to provide seed or 'spin-out' capital for PM teams after a period of exclusivity with a multi-strategy firm; another is to co-develop strategy-specific funds ('spin-ins') that remain within broader multi-strategy frameworks. This hybridization blurs the traditional lines between allocator and multi-strategy hedge fund manager – a theme increasingly common within alternatives.

Quant strategies and the new frontier

Quantitative strategies, whether based on statistical arbitrage, machine learning or systematic macro approaches, now account for a large share of industry flows. Their advantage lies not only in data science but also in behavioral neutrality, as quantitative models exploit inefficiencies that discretionary managers may overlook.

The quant factor effect of the early 2010s has matured into an infrastructure advantage. Large firms with scalable data pipelines and advanced analytics enjoy compounding benefits that smaller players can't replicate. In volatile markets, these systematic processes provide a form of risk control that complements discretionary insight rather than replaces it.

The challenge is one of governance: aligning liquidity terms with underlying exposures, managing valuation transparency and avoiding style drift. While some alternative strategies impose liquidity constraints due to genuinely illiquid holdings, others do so primarily because demand for their fund exceeds its capacity, thus

finding themselves able to secure a longer-term capital base. But for investors willing to accept some illiquidity, the potential for return is compelling.

Opportunities here tend to be found at the intersection of multi-strats/platforms and FoHF's, given the cost, complexity and business acumen that is needed for a successful launch. These exclusive relationships can be structured between a standalone quant fund, with multi-strats that allow for direct monetization of the earlier stage alpha developments and higher Sharpe strategies. But there is a catch, as these earlier launches can be subject to higher cost burdens, early team building challenges and sub-scale alpha origination relative to steady state, fully established capabilities.

This is where FoHFs can leverage relationships with multi-strats and become the preferred capital provider to these quant spin-outs who have derisked the business and built a more mature alpha and risk proposition. This is a core area of focus within the FoHF community today.

Structural shifts reshaping the opportunity set

Several secular forces are redefining what hedge funds are and how they fit in institutional portfolios:

Talent mobility

Portfolio managers move fluidly between pod shops, single-strats and allocators. Career risk is lower, but competition for expertise is relentless.

Institutionalization of cost pass-throughs

What began as an experiment has become industry standard, shifting operational transparency to investors but also compressing net returns.

Hybrid business models

Multi-PM firms expanding into discretionary macro; quant firms hiring human traders in strategies such as fundamental, intrinsic, relative and valuation (FIRV) or commodities; traditional credit shops launching systematic overlays.

Technology as alpha infrastructure

Data analytics, alternative data sets and risk visualization tools now define competitive edge more than directional conviction alone.

Client expectations

Investors want customization, liquidity optionality, improved cash efficiency and lower correlation, while consistently delivering a few percentage points of alpha over cash. Hedge funds must meet these needs or risk commoditization.

In short, the hedge fund ecosystem is evolving from a collection of independent boutiques to an integrated layer within the broader asset-management landscape.



Where do hedge funds fit now?

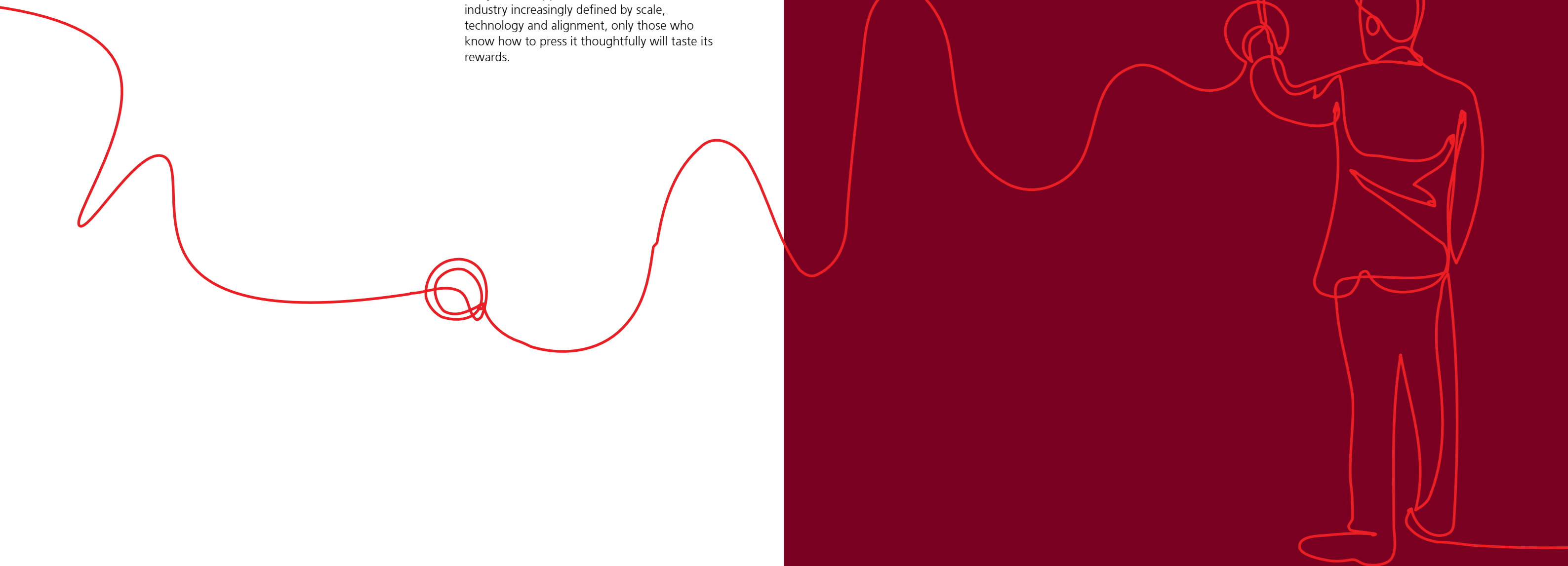
In terms of portfolio construction it is critical to distinguish between diversification within hedge funds and diversification via a portfolio of hedge funds. A well-constructed multi-strategy allocation can dampen volatility but may also cap upside. Single-strategy exposures can offer sharper risk-reward payoffs but require active oversight and tolerance for dispersion.

Hedge funds' role in many portfolios is shifting from 'return enhancer' to 'risk moderator.' In a world where both equities and bonds can suffer simultaneous drawdowns, the ability to generate idiosyncratic returns, whether through relative-value trades, volatility arbitrage or opportunistic credit, is increasingly valuable.

The path forward

The next generation of hedge fund investing will not be defined by labels but by integration of data, disciplines and structures. Multi-strategy platforms will likely continue to absorb top talent and expand their asset base, while specialized funds may thrive in pockets of inefficiency. FoHFs will likely pivot toward partnership and early-stage seeding. Also, multi-strategy and FoHF convergence is expected to continue, as investors demand more transparency, customization and liquidity precision.

For allocators, success will depend on understanding precisely what they are paying for and which risks they wish to own. Put another way, hedge funds are no longer a monolithic asset class but a toolkit for potentially heightening portfolio resilience and flexibility. The juice still appears to be there. But in an industry increasingly defined by scale, technology and alignment, only those who know how to press it thoughtfully will taste its rewards.





Transition leads to opportunity in global real estate



Larissa Belova
CIO US Real Estate

A more constructive interest rate environment, valuation resets, dwindling supply, and shifting demand driven by technology, demographics and evolving consumer preferences are fundamentally reshaping real estate markets globally, argues Larissa Belova.



After a turbulent period of repricing and disruption, the global real estate market is approaching what many see as a rare entry point. Valuations have adjusted, interest rates, while elevated, have stabilized, new supply is dropping across sectors, and demand drivers are evolving rapidly, opening one of the most compelling investment windows in years. Since the end of 2022, when the increased cost of capital started to flow through the capital markets, commercial real estate values have declined in the US by 20% and by 16% in Europe.¹ Leading institutional investors have publicly highlighted this as a generational buying opportunity following valuation resets across major markets.

This is more than a cyclical shift. Real estate markets are exhibiting a combination of factors not seen after prior historical corrections, where overbuilding or excessive use of leverage contributed to distress. On the contrary, fundamentals have remained stable or positive in most sectors, there is little evidence of overleveraging and, with exceptions for certain geographies and sectors, falling supply has buoyed performance and rent growth.

For years, investors rode a wave of low interest rates and steady appreciation, but 2022 was a turning point. As central banks raised rates to combat inflation, the ground shifted beneath the feet of owners, occupiers and investors alike.

The result was a global reset – one that goes beyond balance sheets to redefine what real estate means in a changing world. And while pricing adjusted, the way we use real estate and the drivers of demand have evolved just as

rapidly. Themes like affordability, modernity and need-based demand are reshaping portfolios and creating opportunities for strong risk-adjusted returns with downside protection.

The numbers tell a sobering story. The value of the professionally managed global real estate investment market shrank by 4.1% in 2024 to USD 12.5 trillion. This was the third consecutive year of contraction after more than a decade of growth. The US market alone declined to USD 4.9 trillion, even as its share of the global market rose, a reflection of sharper contractions elsewhere.¹ This contraction wasn't just sentiment-driven – it reflected rising borrowing costs, currency headwinds and a fundamental rethink of risk and value.

As the dust settled, the composition of the market itself began to change. Offices, once the bedrock of institutional portfolios, saw their share of the global market fall to 27.2%. Industrial assets overtook office as the second-most invested property type in the Americas, while residential continued to gain ground, driven by demographic trends and persistent housing shortages. Transaction volumes, having plunged in 2023, rebounded by 18% in 2024 as interest rates stabilized and the gap between buyers and sellers narrowed. Yet, deal activity remains well below pre-pandemic averages. And the global turnover ratio, meaning volume as a share of market size, was just 6.2% in 2024, albeit up from 4.0% the previous year.¹

Behind these numbers lies a deeper story: a fundamental reordering of how we invest in, operate and own real assets.

¹ MSCI Real Estate Market Size Report, July 2025.

Housing affordability and need-based demand bring specialty sectors into the limelight

As inflation, interest rates and lack of housing supply wreaked havoc on most corners of the world over the past few years, affordability has become the number one concern for most consumers and tenants. Owning a home has become exceedingly out of reach with housing prices reaching record highs and mortgage rates remaining elevated, especially in the US. These effects have propelled rentership tailwinds in multifamily, as well as other sectors linked to those challenges, including manufactured housing, single-family rentals and self-storage.

Unlike multifamily, which has solidified as an institutional investment class, specialty sectors are still a small part of institutional portfolios. However, they are gaining increasing momentum as investors recognize the counter-cyclical protection, lower capex outlays, more consistency of cash flow as well as the opportunity to drive alpha through higher income growth and appreciation.

These sectors have started to drive more penetration in allocations, especially in the US, but also increasing in other parts of the world, as investors have recognized the durability of the income streams and downside protection in these sectors. Five years ago, specialty sectors were less than 5% of the NCREIF ODCE, and as of 3Q25, they represent 9.3%.² With the recent correction and persistent challenges around affordability, we view this as an optimal entry point into these sectors.

Smarter warehouses

Robotics and automation have moved from fiction to reality in the modern warehouse. The rise of e-commerce, the relentless drive for efficiency and cost controls, and faster delivery to the consumer have made high-tech fulfillment centers the gold standard.

These facilities demand higher clear height, thicker concrete slabs, robust power infrastructure and flexible layouts to accommodate fleets of robots and automated storage systems. The result? A clear divide between legacy and modernity in logistics assets. Class A warehouses designed for this new era are seeing strong leasing activity and rental growth, while older, less adaptable assets risk being left behind.³

More than a passing trend, this represents a structural shift. In the US, industrial transaction volumes rose by 27% year-over-year in early 2025, a testament to the sector's resilience and the ongoing shift toward automation.⁴

Manufacturing and supply chain shifts

At the same time, the global map of supply chains is being redrawn. Onshoring and nearshoring are reshaping US distribution networks and driving renewed demand for manufacturing and logistics real estate. Policy support for advanced manufacturing is translating into multi-year demand for modern industrial space, particularly in strategically located North American markets.

Companies are seeking to enhance resilience, reduce exposure to geopolitical risks and shorten

delivery times by bringing production closer to end markets, which is fueling demand for facilities near major transportation nodes and energy grid infrastructure.⁵

This is not a quick fix, however. Manufacturing investments typically require three to five years from site selection and power procurement to operational launch.⁶ For investors able to underwrite through volatility, this imbalance between constrained supply and evolving demand represents a rare opportunity to drive value creation early in the next cycle.

AI and data infrastructure

Artificial intelligence (AI) is reshaping real estate in ways few imagined even a few years ago. Data centers, the physical backbone of the digital economy, are now among the most sought-after assets.

In leading markets such as Northern Virginia and Frankfurt, AI-driven compute growth has pushed power grids to their limits, making grid access, not headline vacancy, the defining constraint for new development. The surge in demand for AI and cloud computing is not only driving up rents for data centers, but also transforming the investment calculus for infrastructure and logistics assets.⁷

These mega projects require billions in investments and long time horizons for approval and development. The power and water constraints alone create broader challenges for growth and shared resources.

In a rapidly evolving, technology-driven asset class that sits between real estate and

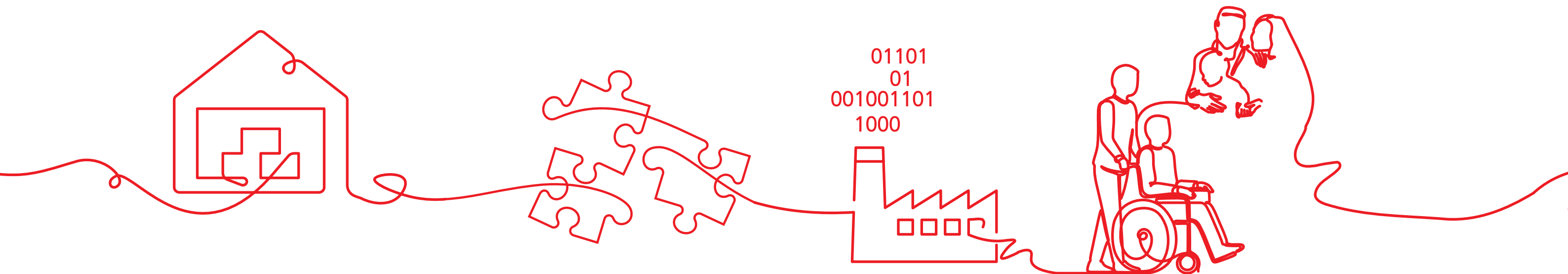
infrastructure, it is worth asking which innovations might unlock new opportunities – and which might cool the current data-center frenzy. In the near term, transformational change may be limited, yet momentum is building behind solutions that could quite literally take the sector to new heights. Space-based solar, with its uninterrupted access to sunlight and absence of terrestrial constraints, is emerging as a potential answer to data centers' growing energy demands. Major technology companies are already exploring the possibilities.

Real-world shifts

The transformation is not limited to logistics and data. Aging populations in the US and Europe are supporting resilient demand for medical office and senior housing assets.

In North America, institutional investors are ramping up build-to-rent strategies to address housing undersupply. Meanwhile in Europe, healthcare real estate is being reshaped by demographic change and regulatory reform. Rapid urbanization in Asia-Pacific is sustaining long-term demand for logistics, multifamily, and medical infrastructure.

Office, by contrast, remains a story of bifurcation. Prime assets with strong amenities and transport connectivity are stabilizing and thriving, while secondary stock in markets such as San Francisco, Chicago, and parts of London has vacancy levels north of 25 to 35%.⁸ Canary Wharf's repositioning following anchor tenant departures is a clear illustration of the broader shift from monoculture office clusters to mixed-use districts.



2 NCREIF ODCE, as of 3Q25

3 CBRE, US Industrial & Logistics Trends, July 2025.

4 MSCI Real Capital Analytics, July 2025.

5 Oxford Economics; UBS Asset Management, August 2025.

6 JLL, US Manufacturing Outlook, July 2025.

7 IDC; UBS Asset Management, October 2024.

8 JLL Global Real Estate Transparency Index 2024, July 2025.

Sustainability: A consistent imperative for value creation and liquidity

In Europe and many other parts of the world, sustainability has moved from the periphery to the center of real estate strategy.

Tenants and investors are demanding buildings with efficient systems: advanced heating, ventilation and air conditioning (HVAC), renewable energy and smart controls. Such features are not just nice-to-haves; they are increasingly required by regulators, add measurable payback in reducing ongoing operating costs and are essential to attracting and retaining tenants. The flight to quality is clear. High-quality, energy-efficient buildings command premium rents and lower vacancy rates.⁹

Regulatory frameworks such as the EU Taxonomy and local energy performance standards are raising the bar for building quality and sustainability. In fact, inefficient buildings are now experiencing a brown discount not only on price, but also on their ability to secure refinancing.

Investors are focused on future-proofing portfolios, knowing that assets that do not meet evolving sustainability criteria risk becoming stranded or discounted in the marketplace.⁹

Outlook

In the US, the industrial and living sectors are positioned to lead the recovery and growth. Warehouses and logistics facilities will continue to attract capital, supported by the surge in e-commerce, the reconfiguration of supply chains and the expansion of data infrastructure. Multifamily assets are expected to sustain institutional investment as the housing shortage endures. Meanwhile, other living segments like manufactured housing and seniors housing offer additional diversification, downside protection and alpha potential.

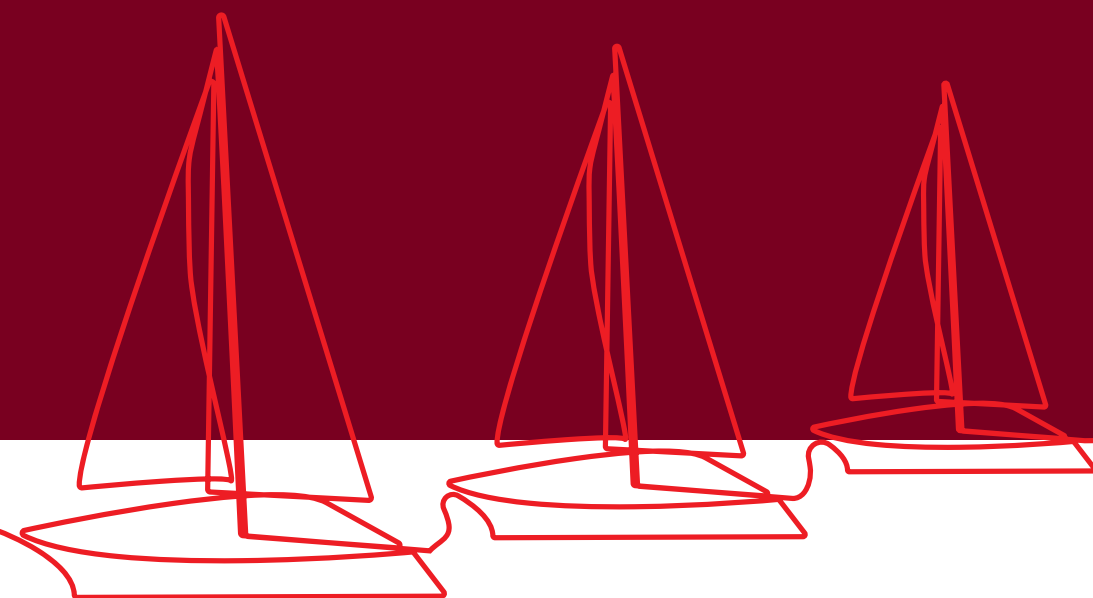
The office sector, by contrast, remains bifurcated, though we are starting to see signs of selective opportunities emerging. Demand will concentrate on Class A, amenity-rich and sustainable buildings, while older assets may face further obsolescence and require repositioning or conversion to alternative uses. The fact that industrial assets have overtaken office in the US signals a lasting shift in investor priorities and market fundamentals.¹⁰

In Europe, the outlook is equally dynamic. Lower interest rates and hedging costs for foreign

investors, combined with robust fundamentals in residential and logistics, are expected to underpin a constructive environment for investors.

In Asia-Pacific, although macro conditions remain diverse, the region stands out for its combination of rapid urbanization, structural undersupply and growing institutional participation. The retrenchment of regional banks has opened the door for alternative lending platforms, while investors with specialist operating partners are capitalizing on dislocation in sectors such as logistics, multifamily and healthcare.

The concentration of investable assets is expected to intensify, with the top five markets (US, China, UK, Japan and Germany) projected to account for an even greater share of global capital flows. This underscores the importance of market selection, operational excellence and a forward-looking approach to portfolio construction.¹¹



⁹ JLL Global Real Estate Transparency Index 2024, July 2025.

¹⁰ CBRE, US Industrial & Logistics Trends, July 2025.

¹¹ NCREIF ODCE, as of 3Q25.



From disruption to opportunity

Beyond capital markets dynamics, the way real estate is used and the demand drivers behind it have evolved dramatically. Themes such as affordability, modernity, technological advancement and AI, and need-based demand are reshaping portfolios across sectors. Investments tied to these secular trends, from attainable housing and logistics to senior living and self-storage, offer the potential for stronger risk-adjusted returns with inherent downside protection.

Policy is also reshaping the cost of capital and deployment velocity. For example, the Inflation Reduction Act and related manufacturing incentives in the US are anchoring new industrial ecosystems across the central part of the country. Meanwhile, monetary policy continuity in Japan has preserved pricing stability in prime office markets compared to Western peers.

Dwindling supply is yet another driver of demand and source of resilience that we anticipate in most sectors. Across nearly all sectors, new supply is falling sharply as higher construction and financing costs constrain development pipelines, creating a powerful

setup for income growth in existing stock and selective acquisitions at reduced bases.

Supply is especially muted in attractive sectors such as senior housing and retail. In senior housing, the sector saw a sharp drop in supply growth following the pandemic, and construction levels are now at their lowest point since 2013. Retail's construction pipeline remains near historic lows, with deliveries hovering near 0.3% of total stock. Similar trends are evident in Europe and Asia, where rising demand is colliding with limited supply. For example, in France, there is a significant supply gap in senior housing, with only one place available for every 10 individuals aged 75 and older. Likewise, Japanese REITs consistently highlight the lack of new supply in the luxury rental housing market, particularly in Tokyo, while strong demand continues to support steady occupancy rates and rent levels.¹²

The effects of all these demographic, consumer behavior and technological disruptions will

continue to shape the global real estate landscape in profound ways. And with borrowing costs still above yields in many Western markets, returns can no longer be engineered through leverage alone.

As we look at the next 12 to 36 months and beyond, we view today as a highly compelling entry point, but the winners in global real estate will be defined not only by when and where capital is allocated, but by how assets are operated, adapted and future-proofed. Operational excellence is becoming an edge: reducing vacancy, amenitizing space, upgrading energy performance, repositioning for mixed use and deploying real-time hands-on asset management.

Investors who focus on resilience, technological readiness and sustainability should be well-positioned to capture value in a market that is being fundamentally reshaped by the transitions we are observing today.

¹² NIC MAP Senior Housing Construction Trends Report, 2025; CoStar US Retail Construction Pipeline & Deliveries Report, 2025; INSEE Senior Housing Capacity Statistics and Fédération des EHPAD/FNADEPA Care Home Capacity Reports, 2024; HEIWA Real Estate REIT, 47th Fiscal Period Report, May 2025.



Alternatives outlooks

Positioning for change

Real estate global outlook

Investment bounces back

Global real estate investment volumes bounced back in the third quarter after slipping in the first half of the year, as investors held back due to concerns over tariffs. Returns were positive over the quarter in the US and UK markets, with capital values holding up. Debt costs vary by market, so investors should use debt selectively, targeting markets such as those in Europe where debt is accretive to returns. In markets where debt costs are higher, investors should pursue higher-return strategies to justify its use or focus on strong asset management, such as reducing vacancy and increasing rents to drive performance. We expect both transaction activity and performance to pick up further in 2026.



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Real estate Switzerland outlook

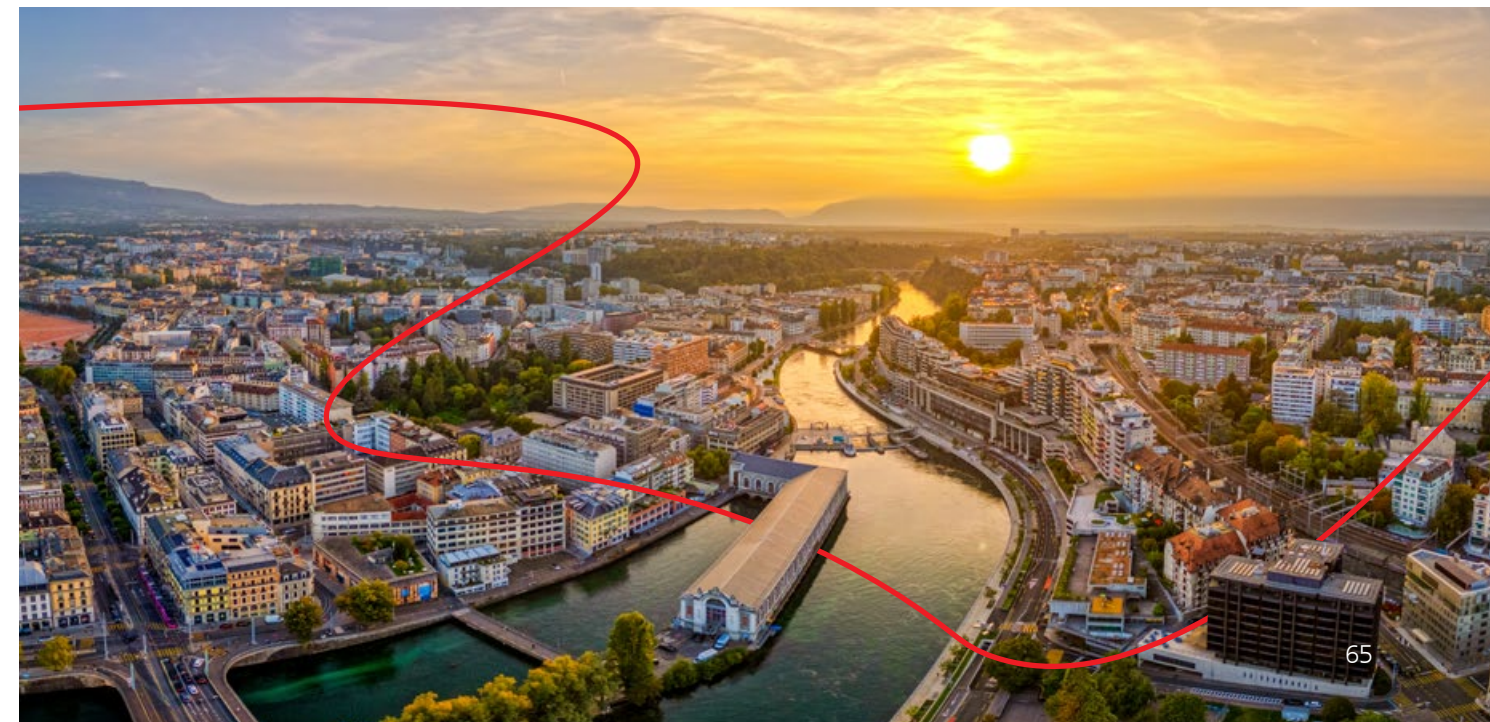
Continuously high demand

In times of uncertainty, investors seek safe havens. As real estate income is generated domestically and therefore less affected by trade policy disputes, the popularity of direct Swiss real estate, already traditionally regarded as a 'safe haven', continues to grow. Strong market fundamentals in Switzerland further underpin the strength of the asset class. In particular, the residential market is continuously characterized by high demand – driven by strong net migration – while supply remains scarce.



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Swiss real estate securities outlook

Strong momentum

The Swiss real estate capital market has shown strong momentum in 2025, with significant inflows into both listed and non-listed real estate funds. Demand for residential real estate funds remains high, driving their performance and widening the yield gap with commercial funds. Listed real estate investments have delivered above-average returns this year, with indices reaching new highs. Premiums have also increased, reflecting strong investor confidence. Seasonal trends point to the potential for continued positive performance through the end of the year.

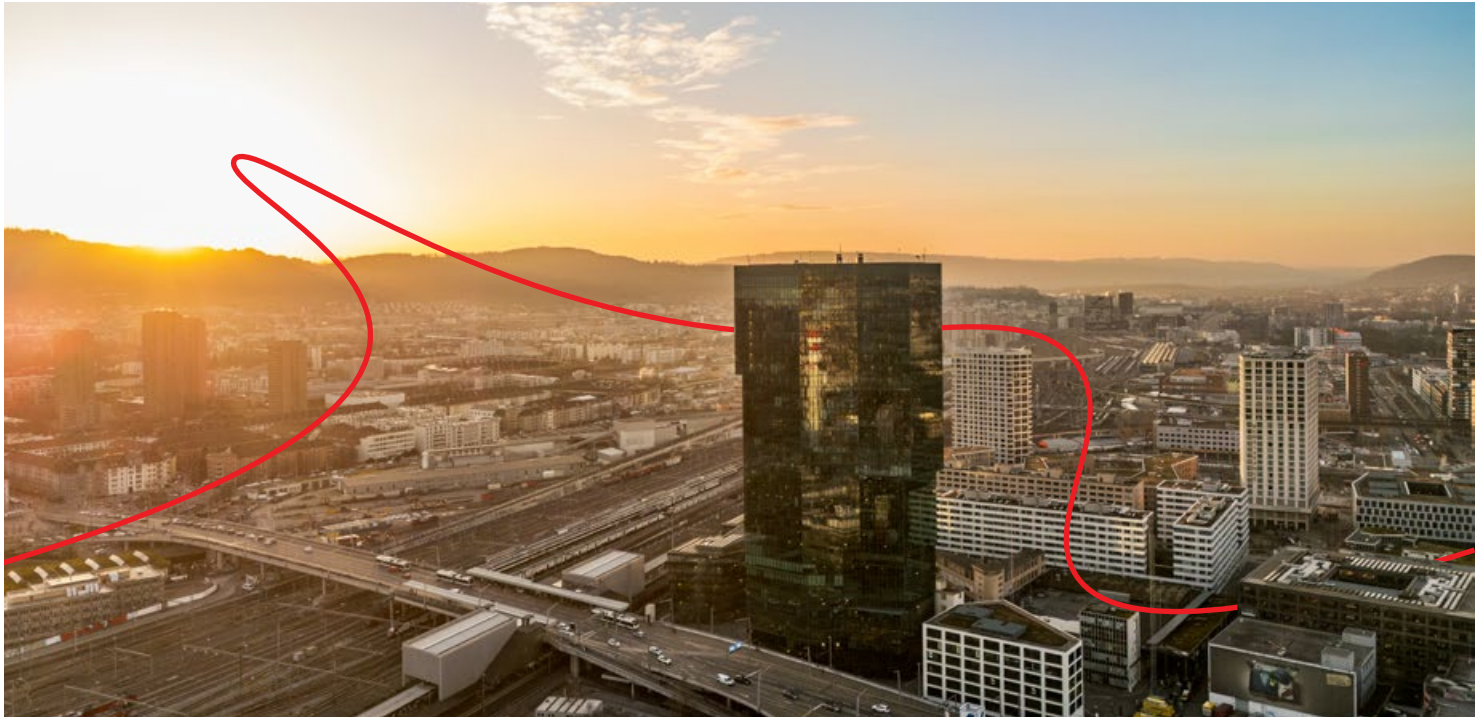


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Real estate APAC outlook

Paths through changing winds

APAC real estate markets have demonstrated resilience amid ongoing trade uncertainties, with recent US-China tariff postponements and regional trade deals providing some stability. Japan and Australia have shown relative strength, with Japan's office and residential sectors performing well and Australia showing early signs of recovery in prime locations. Despite lingering volatility, a selective and diversified investment approach remains crucial in navigating the region's evolving economic landscape.



John Mowat
Head of Real Estate APAC, Global Real Assets

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Real estate US outlook

Steering through volatility

US commercial real estate values are hovering near the trough, presenting investors with an opportunity to capitalize on early-cycle returns. However, ongoing market uncertainty may prolong a full recovery in capital returns. In the near-term, investors should focus on assets with reliable net operating income and strong leasing fundamentals. These will be in sectors with favorable structural tailwinds and located in strategic, high-growth markets with limited supply risk.



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Infrastructure outlook

A stabilizing force in a fractured world

Sentiment toward infrastructure has shifted decisively more positive in 2025. Infrastructure has attracted significant inflows despite elevated geopolitical tensions, political uncertainty, and macroeconomic volatility, as investors view the asset class as a safe haven. Beyond tailwinds such as the growth in AI and rising electricity demand, we believe the case for infrastructure has become existential – it represents the clearest path to build soft power and maintain social cohesion in a multipolar world.

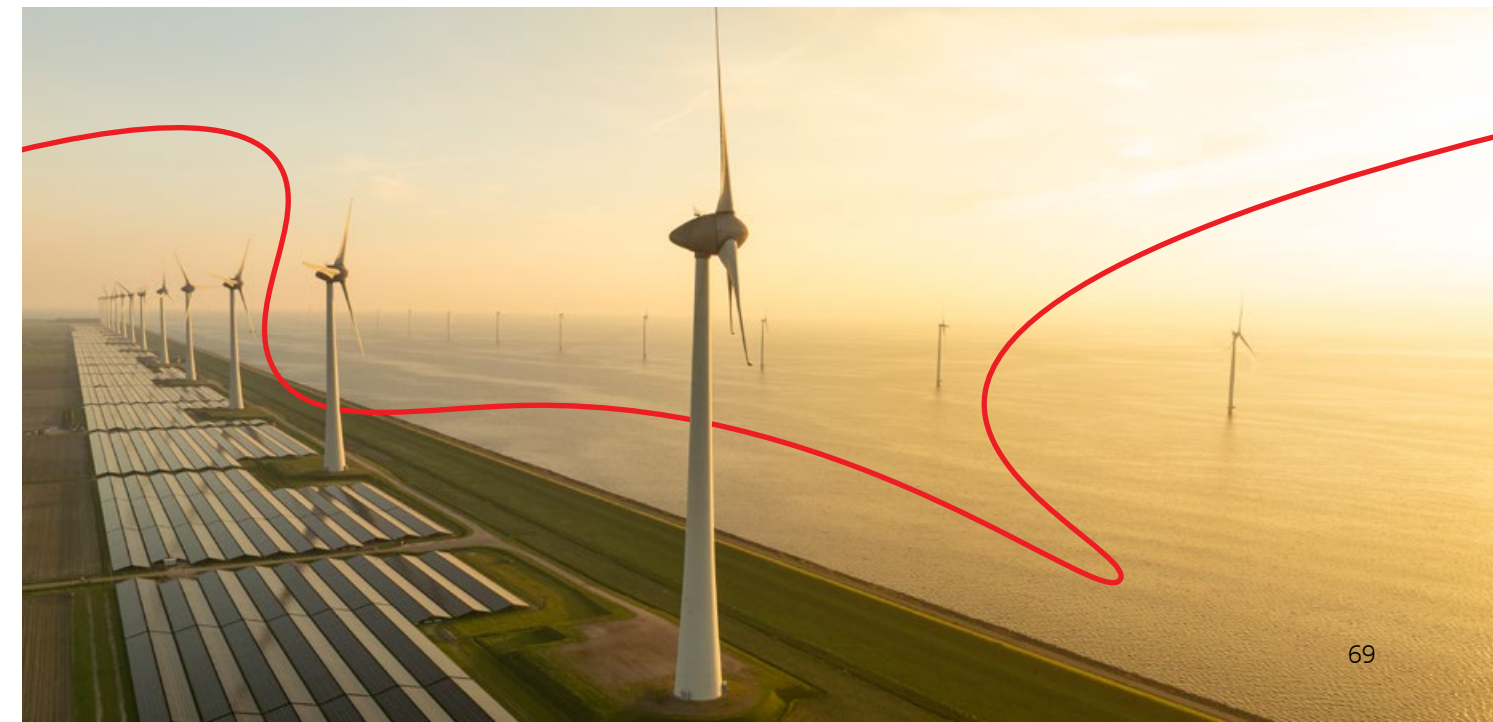


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Private equity outlook

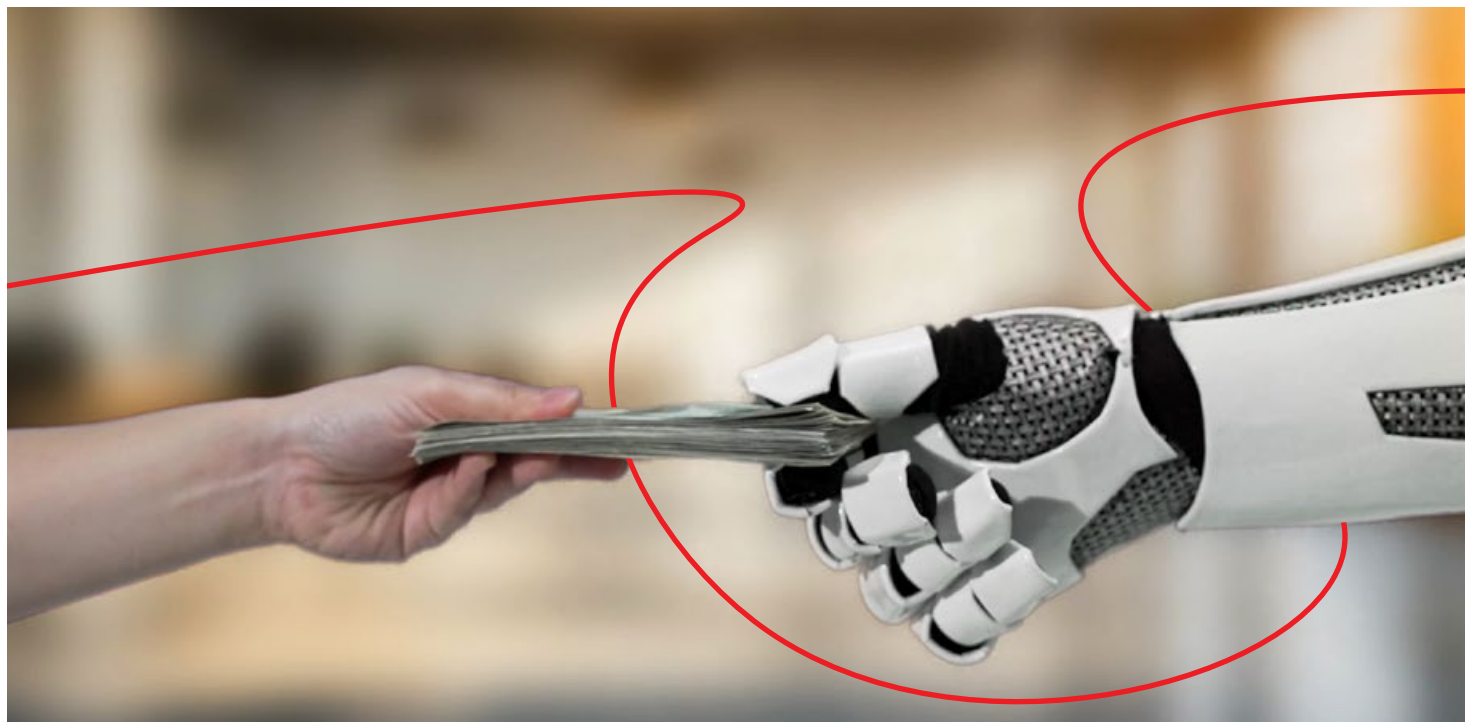
Rate cuts could unlock exit activity

Private equity investors enter year-end with improved policy clarity, aided by interest rate cuts and tariff adjustments, potentially brightening the exit environment. Recession fears persist as demand softens, with managers stretching timelines to avoid poor vintages. Venture capital firms see potential for a generational return opportunity – but selection will be key with failure rates high and value-add often unclear.



James Pilkington
Portfolio Manager,
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Alternatives

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Private credit outlook

Powering a new era of income

Corporate direct lending remains fundamentally strong, with low defaults and healthy margins despite isolated stress signals. Returns are expected to moderate in 2026 due to tighter spreads and lower base rates, though the strategy still offers an illiquidity premium over public markets. Real estate, specialty finance, and reinsurance provide selective opportunities, favoring conservative, short-duration and opportunistic approaches amid evolving conditions.



Joseph Sciortino
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Alternatives – Private Credit

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Hedge funds outlook

A shift from directional to relative value

Hedge funds are marginally shifting toward a more conservative positioning within our portfolios, reducing beta by replacing some of our more directional equity-hedged strategies and credit with relative value strategies.



Edoardo Rulli
Head of Unified Global
Alternatives – Hedge Funds

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Farmland outlook

Harvests through time

US farmland has consistently delivered strong, risk-adjusted returns with low volatility, showing resilience even during periods of high inflation and market stress. As one of the leading institutional managers in the sector, our long-term experience demonstrates that farmland investments provide durability and positive correlation to inflation, making them a valuable asset for diversified portfolios. Recent performance highlights continued positive returns, especially when other asset classes faltered.



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