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Strategic: Diversify with alternatives

Diversify with alternatives

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- **Why?** 1) Alternatives can diversify portfolios beyond traditional equities and bonds, providing additional sources of income and growth. 2) Hedge funds can capture relative-value opportunities, while private equity and secondaries offer access to differentiated growth drivers. 3) Core and core-plus infrastructure can provide stable, often inflation-linked cash flows.
- **Why now?** 1) High equity dispersion, differences in monetary policy regimes, and geopolitical outcomes create opportunities for hedge funds. 2) Higher financing costs favor operational improvements in private equity, while rising secondaries activity offers access to seasoned portfolios. 3) AI, electrification, energy security, and supply chain realignment should support infrastructure investment.



Alternative investments can broaden portfolio diversification beyond traditional assets, offering differentiated income, growth, and return opportunities.
Source: Enzo lo presti

Use hedge funds to diversify return drivers
High dispersion supports low-net and market-neutral equity strategies, while deal activity favors merger arbitrage, in our view. We also like fixed income relative value, discretionary macro, and multi-strategy managers, as they can exploit differences in monetary policy, rates, and geopolitical outcomes.

Manager selection remains critical. Investors should diversify across strategies and assess leverage, liquidity, fees, transparency, and risk controls.

Diversify across private equity and secondaries
Private equity provides access to unlisted companies and opportunities for value creation. We favor operationally skilled, value-oriented managers focused on middle-market companies and complex transactions. With financing costs structurally higher, returns should increasingly come from earnings growth and operational improvements rather than leverage. Recent fundamentals remain supportive, with the median buyout company delivering 7% revenue growth and 9% EBITDA growth in the second quarter.

Investors should broaden exposure beyond US technology and software to health care, energy, infrastructure, industrials, materials, Europe, and select Asian markets. These areas offer differentiated growth drivers and may be less vulnerable to AI disruption.

We also favor secondaries. Transaction volumes rose about 15% year over year in the first half, supported by demand for liquidity and portfolio rebalancing. Seasoned portfolios can offer better visibility into assets, exits, and potential returns, while returning capital sooner than new primary commitments.

Invest in private infrastructure
Private infrastructure can provide visible, often inflation-linked income. Operational assets with high barriers to entry, contractual or regulated revenues, and cost pass-through mechanisms can be less sensitive to economic volatility. Correlation with a traditional 60/40 portfolio has declined to around 20% in recent years.

Structural demand from AI, electrification, energy security, decarbonization, and supply chain realignment should support investment across digital, power, transport, and logistics infrastructure. Investor appetite also remains strong, with trailing 12-month net flows into open-ended infrastructure funds rising 30% year over year through the

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first quarter of 2026, according to PitchBook data.

We favor diversified core and core-plus assets in digital infrastructure, power networks, energy security, and supply chain resilience. Existing operational assets with visible cash flows and established demand should provide a more reliable portfolio anchor than development-stage projects. Elevated data center valuations, higher financing costs, regulation, permitting delays, and weaker-than-expected AI demand remain risks to watch.

Use private debt selectively

Private debt can provide contractual income and floating-rate exposure. Over a full cycle, diversified direct lending can play a strategic role. In the near term, however, tight spreads, rising credit stress, and weaker lending economics support a Neutral stance and moderate return expectations.

We favor top-tier platforms, senior secured loans, upper-middle-market and large-cap borrowers, conservative leverage, strong collateral, covenant protection, and less cyclical sectors. Smaller borrowers, junior debt, and 2021-22 vintages face greater refinancing pressure. Within software, mission-critical providers should prove more resilient than legacy vendors vulnerable to AI disruption.

AI infrastructure financing is a growing opportunity, but compute-backed loans carry technology, utilization, and residual-value risks. We prefer short tenors aligned with the economic life of the underlying chips, conservative loan-to-value ratios, accelerated amortization, and existing or contracted capacity. Guarantees cannot replace prudent collateral and cash-flow underwriting.

Manage alternatives as a portfolio

Across alternatives, outcomes depend heavily on manager selection, entry valuations, and disciplined portfolio construction. Investors should diversify across managers, strategies, regions, assets, and investment years and pace commitments to reflect limited liquidity and uncertain capital calls and distributions.

Key risks include leverage, refinancing, crowded positions, delayed exits, limited disclosure, uncertain valuations, fees, and liquidity. Strategically underallocated investors may add gradually; heavily allocated investors should prioritize diversification across alternative return sources rather than increasing exposure indiscriminately.

Appendix

Non-traditional asset classes are alternative investments that include hedge funds, private equity, private credit, real estate, and managed futures (collectively, alternative investments). Interests of alternative investment funds are sold only to qualified investors, and only by means of offering documents that include information about the risks, performance and expenses of alternative investment funds, and which clients are urged to read carefully before subscribing and retain. **An investment in an alternative investment fund is speculative and involves significant risks.**

Specifically, these investments (1) are not mutual funds and are not subject to the same regulatory requirements as mutual funds; (2) may have performance that is volatile, and investors may lose all or a substantial amount of their investment; (3) may engage in leverage and other speculative investment practices that may increase the risk of investment loss; (4) are long-term, illiquid investments, there is generally no secondary market for the interests of a fund, and none is expected to develop; (5) interests of alternative investment funds typically will be illiquid and subject to restrictions on transfer; (6) may not be required to provide periodic pricing or valuation information to investors; (7) generally involve complex tax strategies and there may be delays in distributing tax information to investors; (8) are subject to high fees, including management fees and other fees and expenses, all of which will reduce profits.

Interests in alternative investment funds are not deposits or obligations of, or guaranteed or endorsed by, any bank or other insured depository institution, and are not federally insured by the Federal Deposit Insurance Corporation, the Federal Reserve Board, or any other governmental agency. Prospective investors should understand these risks and have the financial ability and willingness to accept them for an extended period of time before making an investment in an alternative investment fund and should consider an alternative investment fund as a supplement to an overall investment program.

In addition to the risks that apply to alternative investments generally, the following are additional risks related to an investment in these strategies:

- **Hedge Fund Risk:** There are risks specifically associated with investing in hedge funds, which may include risks associated with investing in short sales, options, small-cap stocks, "junk bonds," derivatives, distressed securities, non-U.S. securities and illiquid investments.
- **Managed Futures:** There are risks specifically associated with investing in managed futures programs. For example, not all managers focus on all strategies at all times, and managed futures strategies may have material directional elements.
- **Real Estate:** There are risks specifically associated with investing in real estate products and real estate investment trusts. They involve risks associated with debt, adverse changes in general economic or local market conditions, changes in governmental, tax, real estate and zoning laws or regulations, risks associated with capital calls and, for some real estate products, the risks associated with the ability to qualify for favorable treatment under the federal tax laws.
- **Private Equity:** There are risks specifically associated with investing in private equity. Capital calls can be made on short notice, and the failure to meet capital calls can result in significant adverse consequences including, but not limited to, a total loss of investment.
- **Private Credit:** There are risks specifically associated with investing in private credit. This could include losses stemming from defaults on loans, which in significant adverse circumstances could result in a substantial loss of investment.
- **Foreign Exchange/Currency Risk:** Investors in securities of issuers located outside of the United States should be aware that even for securities denominated in U.S. dollars, changes in the exchange rate between the U.S. dollar and the issuer's "home" currency can have unexpected effects on the market value and liquidity of those securities. Those securities may also be affected by other risks (such as political, economic or regulatory changes) that may not be readily known to a U.S. investor.

Global asset class preferences definitions
The asset class preferences provide high-level guidance to make investment decisions. The preferences reflect the collective judgement of the members of the House View meeting, primarily based on assessments of expected total returns on liquid and commonly known indices, House View scenarios, and analyst convictions over the next 12 months.
Absolute view
Attractive: We consider this asset class to be attractive. Consider opportunities in this asset class.
Neutral: We do not expect outsized returns or losses. Hold longer-term exposure.
Unattractive: We consider this asset class to be unattractive. Consider alternative opportunities.
Note: For equities, we have a five-tier rating system with two additional preferences. When equities are included with the other asset classes in the three-tier rating system, we collapse "Most Attractive" with "Attractive" and "Least Attractive" with "Unattractive."
Most Attractive: We consider this asset class to be among the most attractive. Investors should seek opportunities to add exposure.
Least Attractive: We consider this asset class to be among the least attractive. Seek more favorable alternatives opportunities.
Relative preferences
For the multi asset view, we also include relative preferences to help investors compare between items.
Preferred: We view this item more favorably than others within its asset class.*
In line: We see this item similarly to others within its asset class.*
Least preferred: We view this item less favorably than others within its asset class.*
*In the case of cross-asset, compared to other asset classes.
Note: The tactical asset allocation (TAA) positioning of our different investment strategies may differ from these views due to factors including portfolio construction, concentration, and borrowing constraints.

Appendix

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