

Strategic: Diversify with alternatives

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- **Why?** 1) Global macro hedge funds have historically fared well in geopolitical crises, while market neutral and multi-strategy funds can monetize dispersion when traditional diversification is less effective. 2) Private infrastructure can diversify long-term income sources, with inflation-linked cash flows potentially appealing if oil supply disruptions persist. 3) Now is a good time to review liquidity needs amid select evergreen vehicles limiting redemption, with a focus on selectivity, manager diversification, and following disciplined investment plans.



Source: Sinitta Leunen_Unsplash

Hedge funds

In our view, hedge fund strategies like discretionary macro, equity market neutral, and multi-strategy platforms are well placed to earn returns amid volatility and an environment where the performance differences between the top and bottom performing stocks is historically large.

From 1997 to March 2026, discretionary macro traders posted an average annualized return of 7.2% (BarclayHedge Global Macro Index) with volatility of 5.6%—comparable to equities but with less than half the volatility. Meanwhile, the maximum drawdown for macro strategies over the past two decades was 8.1% versus 54.0% for developed market equities (MSCI World).

We also see ongoing opportunities for equity market neutral and multi-strategy funds, which can generate returns in both rising and falling markets as they flexibly position around economic developments.

Investors seeking diversification, ways to limit portfolio losses, and access to unique return opportunities within a broader alternatives or multi-asset portfolio can also consider Asian hedge funds. Underresearch and high levels of retail participation may add to dislocations and dispersion that local hedge fund managers can exploit. While no guarantee of future returns, Asian hedge funds have historically delivered appealing returns. Over the past five years, Asian hedge funds have delivered returns broadly

comparable to Asian equities and a global 60/40 portfolio, but with less than half the volatility of both. Relative to global hedge funds, returns and risk-adjusted performance have also been broadly comparable.

We also remain positive on merger arbitrage, though performance may soften if deal activity slows.

Private infrastructure

We believe infrastructure assets are well positioned to deliver resilient, inflation-linked returns through market cycles. Many infrastructure assets face limited competition and high barriers to entry, so owners can pass through cost increases to users. Infrastructure investments can help hedge against inflation because revenue streams are often tied to CPI, particularly for core strategies operating in regulated or contracted assets. Their income streams may therefore be more robust than other yielding assets to both economic volatility and inflation. Such qualities appear increasingly valuable in the current environment.

Infrastructure's returns have looked appealing relative to other parts of a well-diversified portfolio. Private infrastructure has delivered annualised returns of around 11% over the past decade, according to data from Cambridge Associates. But infrastructure also behaves differently to other assets, potentially helping steady portfolios. Recent years have seen the asset class's already low correlations with traditional stocks and bonds fall

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further. Infrastructure returns display only a 30% correlation with a standard 60/40 portfolio, and even less so with other diversifying assets like gold.

In the current climate, we believe investors who focus on diversified, core/core-plus assets in non-cyclical sectors—prioritizing predictable, inflation-linked cash flows—are best positioned to capture attractive, risk-adjusted returns, while supporting the essential modernization of the global economy.

Core and core-plus infrastructure strategies focus on already mature assets with stable income, potentially more matched to income-focused or balanced investors who want to generate the bulk of returns through yield. When observing historical performance of lower risk, core infrastructure strategies, more than 50% of total returns were derived from income. Investors overallocated to other private assets that pay income (private credit and real estate) could look at these types of assets.

Private equity

Private equity returned around 11% in 2025 (Cambridge Associates, global private equity), underperforming the MSCI AC World and S&P 500 indexes by 12 and 7 percentage points, respectively. But we see signs of potentially improved performance going forward.

Over the 12 months to the end of the first quarter of this year, deal value and deal count grew 26% and 7% year over year, respectively, driven by increased interest in HALO (hard assets with low obsolescence risk) and the energy sector.

While raising fresh capital remains challenging—especially for smaller funds—we expect a gradually improving trend of exits and a resilient US macro environment to support the asset class.

We view managers with a value bias who are active in the middle market or skilled at executing complex transactions as best positioned. Regionally, we recommend diversification beyond the US. Meanwhile, the appeal of the secondary market remains intact—and areas such as tech, health care, energy, and defense present attractive thematic opportunities to capture long-term growth.

Select direct lending

Over a full economic cycle, CIO sees merit in diversified allocations to direct lending, sized to investor individual risk and liquidity preferences. However, in the near term, we expect risk-adjusted returns to moderate.

For those considering adding to direct lending allocations, we continue to urge selectivity with a bias toward higher-quality, larger-cap, and sponsor-led deals and an avoidance of riskier and growth-sensitive underwriting in the lower-middle markets and below.

Risks are rising among lower-middle-market borrowers and 2021-22 vintages, with defaults rising to 2.7% in the first

quarter (Proskauer data). Looking ahead, we expect returns to moderate, as spreads remain tight and default rates normalize.

Diversification across private market strategies may help manage risk, but investors must be prepared to tolerate illiquidity and limited transparency in both good and more challenging market conditions.

Investors subject to redemption restrictions in evergreen structures should:

- Review liquidity terms, redemption mechanics, and governance provisions.
- Pay particular attention to manager quality—including liquidity management, communication, and alignment—particularly in stress scenarios.
- Diversify across fund structures and liquidity profiles to help mitigate concentration risk.
- Ensure their own liquidity needs are compatible with their chosen vehicle's design and be prepared for periods of restricted access to capital.

Private real estate

In global direct real estate, we expect total returns to be primarily driven by income, with a smaller contribution from capital gains, as rental growth moderates. We currently see core/core-plus strategies—particularly in logistics, data centers, and living sectors with robust fundamentals—as offering relatively attractive risk-adjusted returns.

Alternatives carry unique risks that investors must be aware of before investing, including limited transparency, potentially high fees, and illiquidity.

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. Note that 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.

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

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.

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."

Appendix

Risk information

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