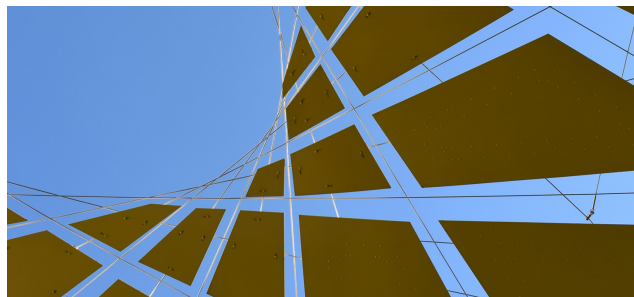


# Strategic: Diversify with alternatives

## Diversify with alternatives

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**Why?** (1) Hedge funds have demonstrated the ability to limit losses during downturns while maintaining exposure to potential market gains; (2) Private infrastructure is generally less correlated with traditional asset classes, with return correlation ranging from -0.2 to +0.6 according to Cambridge Associates; (3) Middle-market buyout targets in the US may be a fertile ground for value creation, potentially benefitting from the next phase of Trump administration policies.



Source: Maggie Yap\_Unsplash

**Hedge funds** can offer attractive returns for the level of risk taken by identifying promising opportunities across markets while managing the risk of potential market downturns. In an environment of slowing growth and more concentrated markets, we focus on strategies such as equity market neutral funds, which seek to profit from both rising and falling stocks by balancing long and short positions; discretionary macro funds, where managers invest based on their views of global economic trends; and multistrategy funds that combine several approaches. We also see fresh opportunities in merger arbitrage, a strategy that aims to profit from price changes in companies involved in mergers and acquisitions (M&A), supported by a resurgence in M&A activity.

**Private equity** stands to benefit from lower interest rates, reduced regulation, and more appealing entry valuations. This year, European and US middle-market median valuations (EV/EBITDA) have fallen to around 10x and now trade below the overall market, according to April 2025 Pitchbook data. We expect an acceleration in distributions—cash returned to investors—and exits, meaning sales of portfolio companies, which should help ease the buildup of aging holdings. Our preference is for middle-market, value-oriented buyout strategies and secondaries funds, which purchase existing private equity investments, with an emphasis on regional diversification in Europe and Asia.

**Private credit** continues to offer compelling income, though tighter credit spreads warrant increased selectivity. We prefer sponsor-backed loans, which are made to

companies owned by private equity firms, as well as senior loans that have priority in repayment if a company faces financial trouble. Our focus is on quality loans in the larger mid-sized company segment and in less cyclical sectors.

**Infrastructure** assets remain a compelling opportunity in our view. Their high barriers to entry, monopolistic positioning, and strong ability to pass on costs make them resilient to economic slowdowns and positively correlated with inflation. Private infrastructure investments have historically demonstrated resilience, with annualized returns of 7.6% in 2024 and 10.6% over the five years to end 2024, based on Cambridge Associates data. We favor diversified, core and core-plus assets—meaning infrastructure with stable or moderate growth cash flows—in non-cyclical sectors, focusing on predictable income streams that rise with inflation.

**Real estate** in the US is showing signs of stabilization and recovery, with net asset values holding steady since late 2024 and investment activity picking up. Sectors with tight supply and strong rental growth—such as logistics, data centers, and living sectors—are best positioned to outperform as the recovery unfolds, in our view.

Before investing, we recommend investors consider the risks associated with alternatives, including illiquidity, limited transparency, and the use of leverage.

More resources:

[CIO View - Hedge funds](#)

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Diversify with alternatives

[CIO View - Private infrastructure](#)

[CIO View - Private debt](#)

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

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## Appendix

### Risk information

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