& PARTNERS℠

The Alternatives Opportunity

Alternative investments can help you strike a better balance of risk and reward

Our top priority is helping you build the life you want. Your advisor will help you build a diversified investment portfolio that is right for you—one that can provide enough potential growth for your goals without taking more risk than you can handle.

We believe alternative investments may play a valuable role in that portfolio. What's more, you have greater access to high-quality alternative investments than you did in the past. We prepared this guide to help answer your questions about different types of alternatives:

- Private equity
- Private credit
- Real assets: real estate and infrastructure
- Hedge funds

See important disclosures at the end of this document

Key Takeaways

What are alternative investments?

Alternative investments are strategies that go beyond traditional investment approaches, often by investing in private markets. They include private equity, private credit, and infrastructure. Alternatives are not available to all investors, the way most stocks and bonds are. *Read more on page 3.*

Why should I consider them?

Alternatives can improve a portfolio's diversification, which is key to striking a good balance of risk and potential return. Alternatives also can help capture growth, generate income, manage inflation, and provide tax advantages. *Read more on page 4.*

Why now?

Alternative investments have become much more accessible to individual investors in recent years. They used to be the exclusive domain of large institutional investors such as pension funds and college endowments, but now investors like you have access to the same types of investment strategies. *Read more on page 6.*

What else should I know?

With alternative investments, investors can sell only at specific times and in limited amounts. Alternatives may charge higher management fees than investments that hold publicly traded assets, and they may take longer to report their holdings and results. Good manager selection and access are critical, because top managers tend to outperform the rest by wide margins. *Read more on page 6.*

What are alternative investments?

As the name suggests, alternatives are different than traditional, widely available assets. Alternatives strategies focus on the private markets, rather than investing in publicly traded stocks or bonds.

When you invest in alternatives, you typically enter into a partnership with an investment manager such as a private equity firm or private lender. The manager generally invests directly in companies or other entities, with no third party in between—for example, negotiating directly with a company to lend it money or buy part of its business.

What's the difference between alternative investments and private markets?

Private markets: Financial markets in which investments are made directly and are not actively traded on exchanges or through brokerages.

Alternative investments: Strategies that go beyond traditional investment approaches, often by investing in private markets or using sophisticated techniques such as derivatives or short sales.

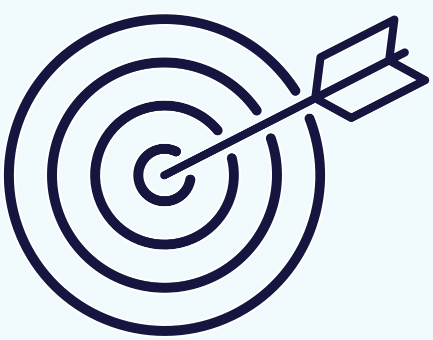
Types of alternative investments

1. **Private equity.** An investment firm typically buys all or a portion of a business directly, tries to boost its value, then sells its stake. Private equity firms often hold controlling stakes in a company, so they can increase the value of their investment by improving the business model and/or making better use of the company's financial resources.

***Primary objectives:** growth, diversification*

2. **Private credit.** A finance company other than a bank makes a loan directly to a borrower, usually a small to midsized firm. Private credit typically pays higher interest than public credit investments such as corporate bonds.

***Primary objectives:** income, diversification*



3. **Private real estate.** Private real estate funds provide access to diversified, professionally managed portfolios of real estate properties or mortgages. You typically invest by entering into a private trust or partnership.

***Primary objectives:** income, inflation protection, diversification*

4. **Infrastructure.** These investments support the construction, operation, and maintenance of a wide variety of infrastructure projects, including roads, airports, energy installations, and more. They pay contractual or regulated payments, often with inflation protection.

***Primary objectives:** income, inflation protection, diversification*

5. **Hedge funds.** Hedge funds are actively managed investments that may use complex strategies to enhance returns or manage risks. They represent a broad array of approaches, so they may help you pursue a wide range of investment goals.

***Primary objective:** varies by strategy.*

Why should I consider alternatives?

Alternative investments may support your portfolio in a variety of ways: potentially helping enhance diversification, boosting growth, increasing income, preparing for inflation, and managing taxes.

The private markets are vast and diverse, providing access to a wider range of opportunities than you can reach through public investments alone. For example, private companies make up almost 9 out of 10 U.S. companies with more than $100 million in revenue—more than 19,000 firms.[1] By contrast, the number of U.S. publicly traded stocks has fallen from more than 7,000 in 1997 to fewer than 4,000.[2] Similar trends have occurred in other countries, including major markets such as Germany.[3]

The private credit market also has grown rapidly. The total value of private credit grew 50% between 2020 and 2025 and is expected to increase another 70% by 2029.[4] Private infrastructure and real estate investments are on similar growth trajectories.[5]

Alternative investments offer a number of potential benefits, including:

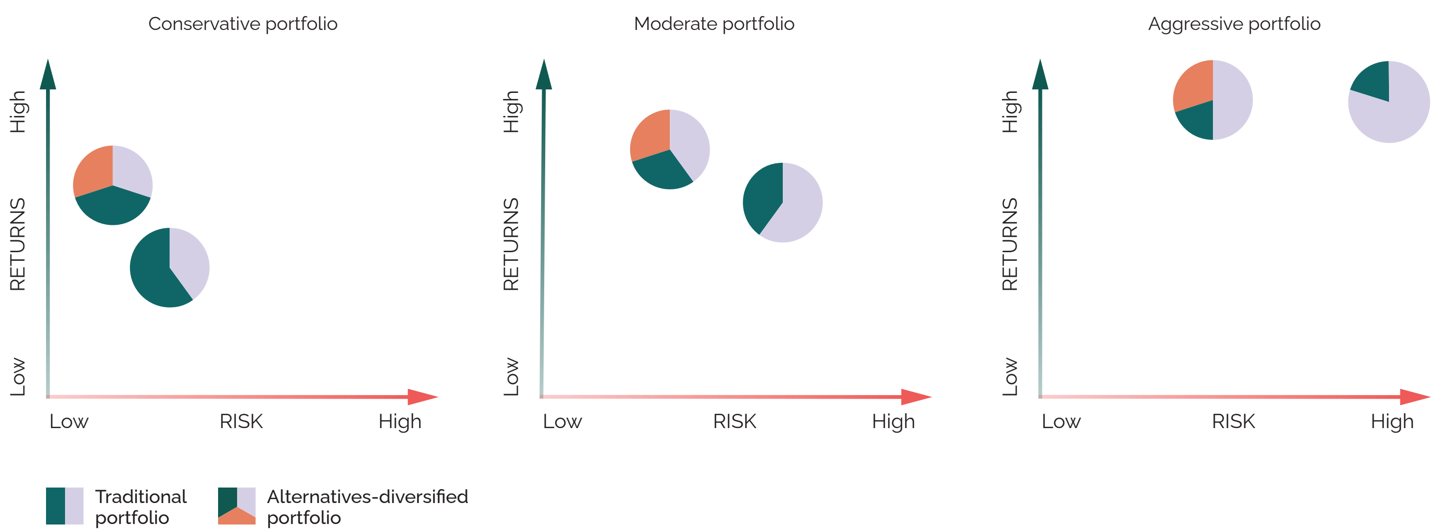
1. Diversification

Public investments such as stocks, bonds, and cash probably make up the lion's share of your investment portfolio. Alternatives can help diversify a portfolio of public investments, because public and private asset classes generally don't produce the same returns at the same times. For example, when public stocks fall, private equity investments may rise. Likewise, infrastructure projects often produce contractual or regulated cash flows, so developments in the economic cycle don't typically affect their returns the way they affect public stocks and bonds.

Enhancing diversification with alternative investments may help generate better risk-adjusted performance than public investments alone, as illustrated in the charts below.

Alternatives may improve the balance of risk and return

Risk and projected returns of traditional vs. alternatives-diversified portfolio



Sources: Bloomberg, Burgiss, HFRI, NCREIF, Standard & Poor's, FactSet, J.P. Morgan Asset Management. Alternatives include hedge funds, real estate, and private equity, with each receiving an equal weight. Portfolios are rebalanced at the start of each year. Equities are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. Volatility calculated as the annualized standard deviation of quarterly returns. Data as of 2/28/2025.

Gray sections of the pie charts represent stocks, green sections represent bonds, and orange sections represent alternative investments.

2. Potential growth

Private equity offers stronger long-term growth potential than publicly traded stocks. One reason: private equity managers can tap a huge range of opportunities, including:

- Businesses across the full spectrum of industries and sectors
- Companies of all sizes and stages of development
- Situations from rapid growth to bankruptcy
- Investments in the U.S. or in foreign countries

You can choose to invest through *primary* funds, which invest directly, or *secondary* funds, which buy other investors' commitments.

When you invest in a private equity fund, you may benefit from the manager's active engagement. Managers typically work closely with the businesses in their portfolios, using their know-how and connections to help boost the companies' value—for example, by helping a company improve its business model, optimize its capital structure, or make strategic acquisitions. Private equity managers with significant experience, resources, and relationships have a particular edge, because information about private companies is less readily available than it is for public companies, and the best private companies typically want to work with top-tier managers.

> *"Individuals and their advisors now have access not only to more alternative strategies, but also to better data, analytics, and tools to inform investment decisions and the sizing of alternatives allocations."*

Saira Malik, CFA®
Chief Investment Officer, Nuveen

Private equity also may help you focus on specific types of opportunities. For example, entering 2025, &Partners had the view that small companies looked undervalued compared to large firms. Investing in small caps was tricky, however, because many were losing money. The December 2025 issue of &Partners' *Prism* market outlook featured RCP, a private equity manager that invests in carefully chosen, profitable small companies and works with them to help boost growth.*

3. Income

Private credit can offer higher income streams than publicly available bonds, including high-yield bonds.

Certain risks are higher in private credit than in public corporate bonds. For example, compared to public bond issuers, private borrowers tend to be smaller companies with weaker balance sheets. And there is no active secondary market for these loans, so a private credit fund typically can't sell the loans it holds. On the other hand, private credit managers negotiate and work with borrowers directly, giving them considerable insight into businesses and control over terms.

Private credit also is less vulnerable to certain risks than public bonds are. Interest rates on private credit typically are tied to a short-term interest rate benchmark, so they rise and fall with the general level of interest rates in the economy. This feature typically helps keep private credit investments stable when interest rates are volatile—an important difference from most bond investments, which can post significant losses when rates rise.

4. Inflation protection

Private real estate and private infrastructure investments may hold up better than public equity and fixed income when inflation rises. Real estate values tend to increase when inflation rises, and rental agreements and infrastructure contracts often include language increasing payments to investors in the event of high inflation.

5. Tax benefits

Certain alternative investments may be especially tax efficient. They might allow investors to reduce or defer capital gains taxes or have other provisions that can help reduce investors' tax bills.

* *To read the most recent issue of Prism, visit: andpartners.com/news-insights.*

Why now?

Historically, alternative assets and strategies have been available only to the very largest investors. Over the past decade, regulations have evolved in ways that give more people access. At the same time, finance firms have developed new vehicles and platforms that let individual investors like you participate in institutional-quality alternative investments.

At &Partners, we think alternatives may help you achieve your goals. That's why we have partnered with iCapital and Conway, alternative investment platforms that give your advisor access to dozens of investment products across all major alternative asset classes—including specialized funds that are not available to many other advisors and investors.

What else do I need to know about alternatives?

Investing in alternatives is different than investing in public securities in some important ways. Discuss the following considerations with your advisor:

1. Illiquidity

You can trade stocks, mutual funds, or exchange-traded funds (ETFs) almost whenever you want. That's not the case with alternative investments, which are structured in ways that can limit access to your capital.

How much and when you can withdraw from an alternative investment varies, depending on the fund. In one common arrangement, the investment manager allows investors to distribute up to 5% of the total fund volume each quarter but reserves the right to restrict liquidity further. Bear in mind that managers may be most likely to restrict access during times of market stress—exactly when you may feel the need to withdraw your money. Some structures might not offer any liquidity at all, meaning any money you invest is locked up until the end of the fund's term (typically 10 years).

You and your advisor should consider any potential allocation to alternatives in the context of your overall investment plan. Discuss how it might help you achieve your long-term objectives, and make a plan to ensure you'll have access to enough money to meet any needs and goals in the interim. An appropriate amount for you to invest in alternatives may range from 0% to upward of 20%, depending on your situation.

It's worth noting that limited liquidity has some advantages. In fact, it's central to alternatives' potential benefits. Being unable to quickly sell assets intended for the long term may help you ride out periods of market stress without disrupting your investment strategy. Illiquidity can help alternatives managers as well: since they don't have to worry that investors might pull out assets, they can invest with the long time horizons needed in real estate, infrastructure, and young growth companies.

There's even a name for the additional returns illiquid assets are expected to provide: the illiquidity premium. After all, you *should* demand premium returns for locking up your money.

2. Cost

Alternative investments usually charge higher management fees than strategies that invest in public assets—double or more, in many cases. You should expect alternatives to outperform public investments by more than enough to offset those higher fees.

The total value of private credit grew 50% between 2020 and 2025 and is expected to increase another 70% by 2029.[4]

3. Transparency

Regulations require public mutual funds and ETFs to disclose their holdings at regular intervals. Alternatives don't face those requirements. In some cases, a fund may expect you to invest without seeing a full list of its holdings. This limited transparency makes it essential to work with providers that have clear investment processes, seasoned and stable investment teams, strong networks, and well-established track records. Likewise, alternatives managers may not provide daily or monthly updates on returns, and there may be a lag in reporting performance. If you invest in alternatives, you can work with your advisor to track how well your positions deliver on their objectives.

4. Manager selection

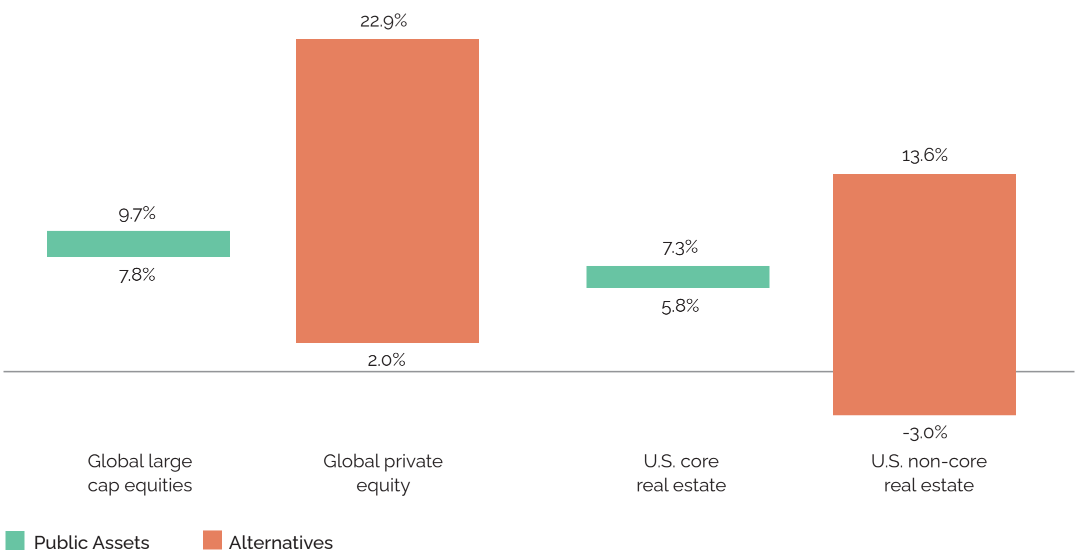
The difference between top-performing and bottom-performing managers is much larger in alternatives than in traditional asset classes, as you can see in the chart.

Most public large-cap stock funds tend to produce similar annual returns. By contrast, private equity funds may produce a much wider range of results. The dynamics are similar in real estate. The upshot: in alternatives, selecting sound managers is critical.

The potential disparity between the best managers and the rest means you need access to seasoned firms to harness alternatives' potential. &Partners offers a carefully chosen mix of some of the most well-known alternative investment managers and unique products from boutique managers.

Range of returns, public investments vs. alternatives

25th–75th percentile



Sources: Global Large Cap Equities and Global Bond are based on the Morningstar Global Large Stock Blend and Global Bond (not hedged) categories respectively. U.S. Core Real Estate is based on the NCREIF Fund Index—ODCE. Global Private Credit are represented by Pitchbook fund data. U.S. Non-core Real Estate, Global Private Equity and Global Venture Capital are based on indexes from the MSCI Private Capital Universe. Hedge Funds are based on the PivotalPath index. Data as of 2/28/25.

Explore the alternatives opportunity with your advisor

Alternative investments present both compelling opportunities and important trade-offs. Your financial advisor can answer your questions and help you figure out whether an allocation to alternatives might improve your ability to meet your investment goals. With their knowledge and their deep understanding of you, your advisor can help you create and manage a portfolio that connects your life today with the future you want to build.

&Partners Investment Team

The &Partners Investment Team brings extensive experience, deep market knowledge, and a disciplined approach to managing capital.

In keeping with our mission to bring institutional-quality research, analysis, and strategies to financial advisors and their clients, we make ourselves readily available to &Partners' advisors. Our concierge orientation results in highly personalized investment advice that allows clients to better achieve their financial goals.

*Kristi is not a principal of &Partners and does not participate in the management or supervision of its brokerage and/or investment advisory activities.

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Additional Important Disclosures

The &Partners Investment Team is a group within &Partners comprised of experienced asset management professionals which serves as a resource for &Partners LLC and its financial professionals. The opinions of the &Partners Investment Team expressed herein: (i) may not reflect the individual opinions of the financial professional(s) servicing your account(s); and (ii) are not intended as, and may not be relied on in any manner as, legal, tax or investment advice, a recommendation, or as an offer or solicitation to buy or sell any security, financial product or instrument, or otherwise to participate in any particular trading strategy. Past performance is no guarantee of future results.

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Investment and portfolio diversification is generally recommended to reduce the overall volatility of a portfolio, but diversification will not assure a gain or prevent a loss (especially in declining markets). Diversification is generally more effective to reduce volatility when a portfolio includes investments that are uncorrelated or negatively correlated with one another from a performance and investment risk standpoint. Historical correlation of investment performance correlation (or lack thereof) is, by its nature, backwards looking and does not guarantee the correlation (or lack thereof) will continue or remain constant.

Alternative investments, such as hedge funds, funds of hedge funds, managed futures, private capital, real assets and real estate funds, are not appropriate for all investors. They are speculative, highly illiquid, and are designed for long-term investment, and not as trading vehicle. These funds carry specific investor qualifications which can include high income and net-worth requirements as well as relatively high investment minimums. The high expenses associated with alternative investments must be offset by trading profits and other income which may not be realized. Unlike mutual funds, alternative investments are not subject to some of the regulations designed to protect investors and are not required to provide the same level of disclosure as would be received from a mutual fund. They trade in diverse complex strategies that are affected in different ways and at different times by changing market conditions. Strategies may, at times, be out of market favor for considerable periods with adverse consequences for the fund and the investor. An investment in these funds involve the risks inherent in an investment in securities and can include losses associated with speculative investment practices, including hedging and leveraging through derivatives, such as futures, options, swaps, short selling, investments in non-U.S. securities, "junk" bonds and illiquid investments. The use of leverage in a portfolio varies by strategy. Leverage can significantly increase return potential but create greater risk of loss. At times, a fund may be unable to sell certain of its illiquid investments without a substantial drop in price, if at all. Other risks can include those associated with potential lack of diversification, restrictions on transferring interests, no available secondary market, complex tax structures, delays in tax reporting, valuation of securities and pricing. An investment in a fund of funds carries additional risks including asset-based fees and expenses at the fund level and indirect fees, expenses and asset-based compensation of investment funds in which these funds invest. An investor should review the private placement memorandum, subscription agreement and other related offering materials for complete information regarding terms, including all applicable fees, as well as the specific risks associated with a fund before investing.

Indexes are unmanaged and cannot be invested in directly. Index performance does not include fees and expenses an investor would normally incur when investing in a mutual fund. Diversification and strategic asset allocation do not assure profit or protect against loss in declining markets.

Bloomberg Barclays US Aggregate Bond Index is a broad-based flagship benchmark that measures the investment grade, US dollar-denominated, fixed-rate taxable bond market. The index includes Treasuries, government-related and corporate securities, MBS (agency fixed-rate and hybrid ARM pass-throughs), ABS and CMBS (agency and non-agency).

Bloomberg US Corporate High Yield Bond Index measures the USD-denominated, high yield, fixed-rate corporate bond market. Securities are classified as high yield if the middle rating of Moody's, Fitch and S&P is Ba1/BB+/BB+ or below.

See important disclosures at the end of this document

Endnotes

1 Capital IQ, 2/2025, as cited by Hamilton Lane in "Hamilton Lane Private Assets Fund Q4 2024"

2 CRSP, https://www.crsp.org/wp-content/uploads/CRSP_Count_20240628.pdf

3 World Bank, https://data.worldbank.org/indicator/CM.MKT.LDOM.NO?locations=DE

4 Morgan Stanley, "2025 Private Credit Outlook," https://www.morganstanley.com/im/en-us/individual-investor/insights/articles/private-credit-outlook-2025-opportunity-growth.html?utm_source=chatgpt.com

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