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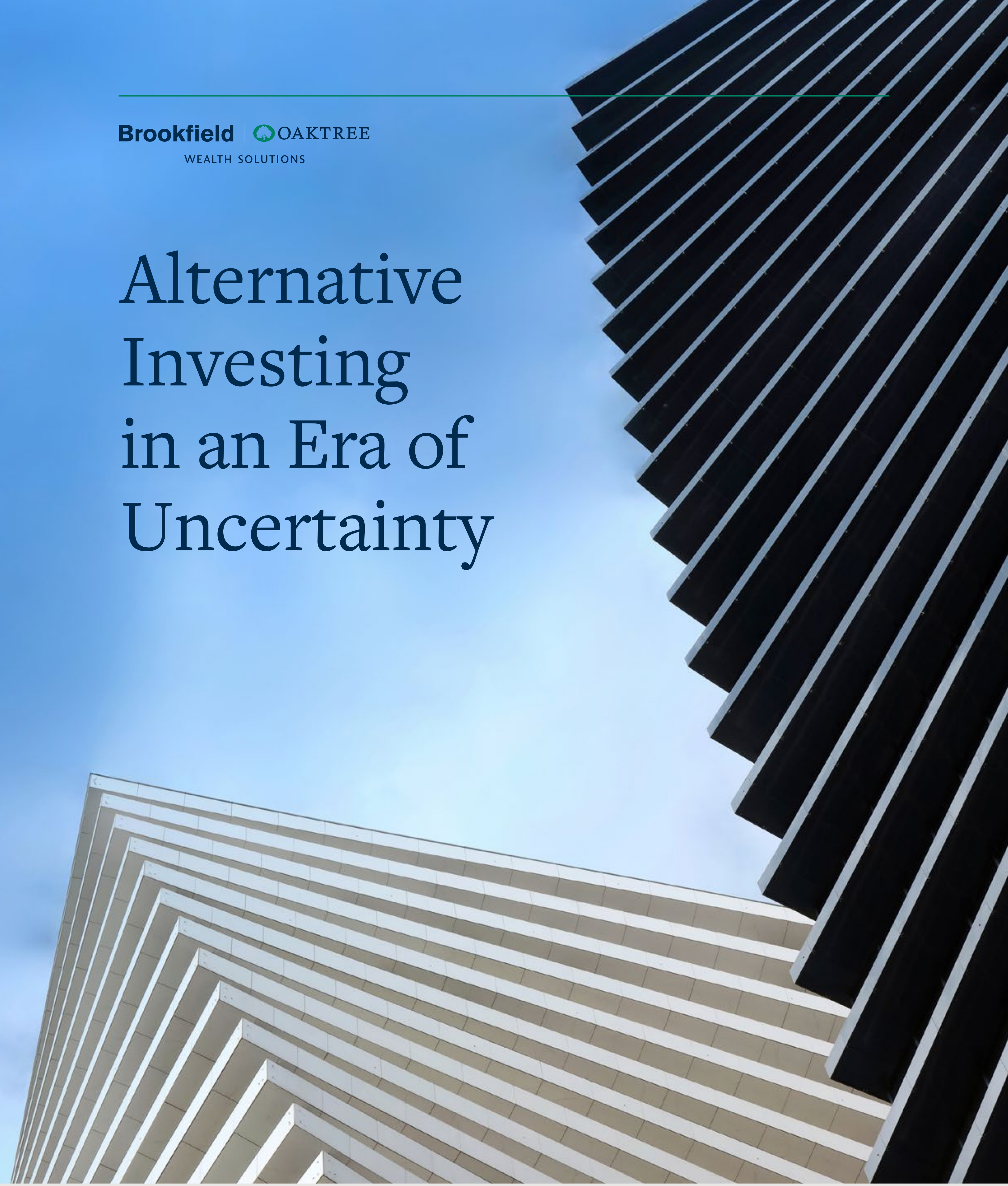
WEALTH SOLUTIONS

Alternative Investing in an Era of Uncertainty



ALTS QUARTERLY | AUGUST 2025

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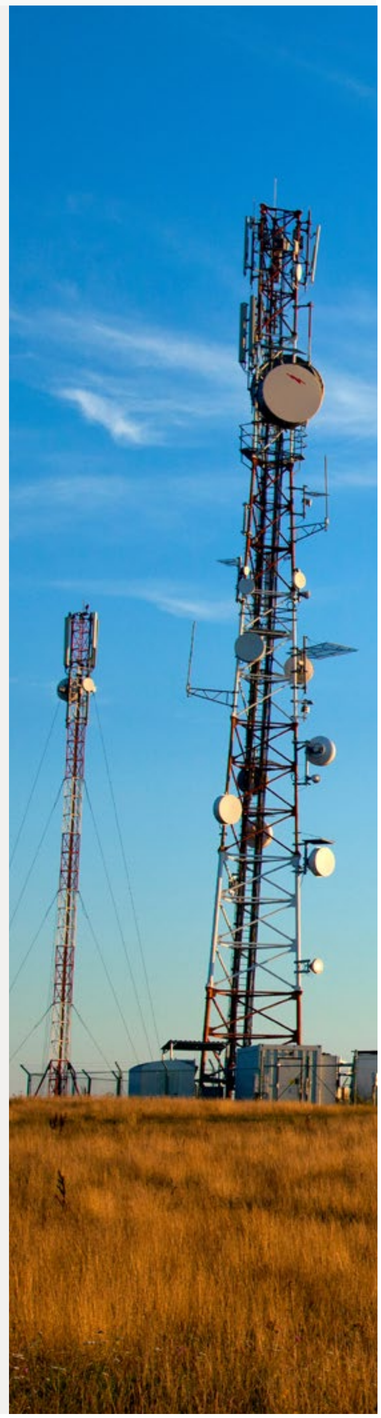
Introduction



Equity and other risk markets rebounded in the second quarter, with the S&P 500 Index reaching a record high in late June, as investors shrugged off a range of concerns, including geopolitical tensions, ongoing trade frictions, hovering inflation and the future path of interest rates. Investors instead were comforted by data that suggests while the U.S. economy is on shaky ground, it's holding up: GDP grew 3.0% in the second quarter, rebounding from a 0.5% contraction in the first, supported by resilient consumer spending.

Still, the old Wall Street adage that "the only certainty is uncertainty" seems more pertinent than ever these days. Numerous challenges persist, and the outlook suggests we may be entering a period of low growth and higher inflation.

In May, inflation ticked higher in a reversal from a downward trend seen earlier this year, although the full impact of higher tariffs has yet to translate into higher prices for many consumer items. Higher inflation could, in turn, weaken economic growth, and investors are also increasingly concerned about the sustainability of long-term government finances.

Against this backdrop, the Federal Reserve (Fed) continues to hold rates steady, with the caveat that further cuts could reignite inflation. As a result, both interest rates and bond yields are still high relative to the last several years, and they are likely to remain higher, at least for the near term. Looking ahead, it seems likely that volatility and uncertainty will continue to be the hallmarks of markets in 2025.

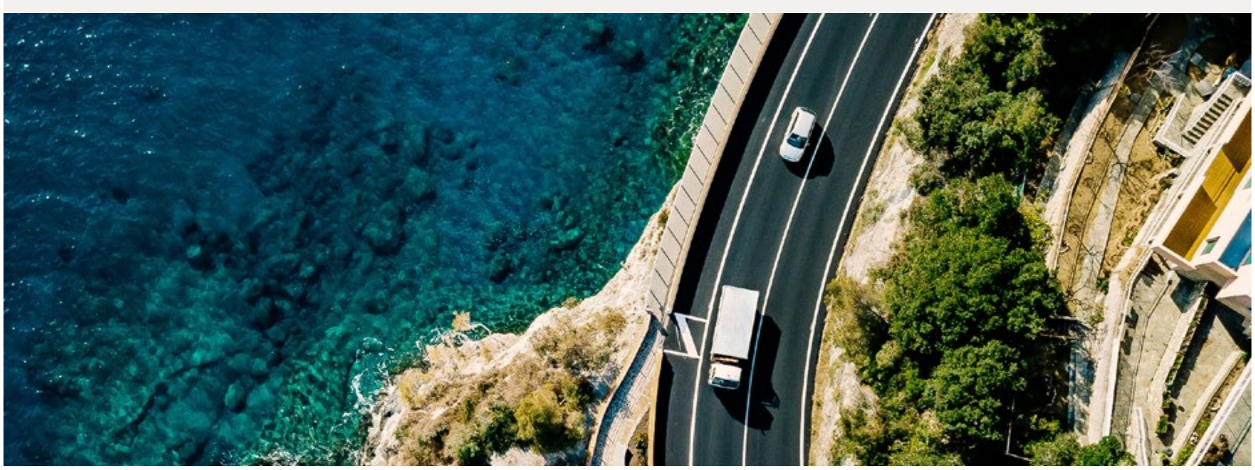
In this issue of the *Alts Quarterly*, we explore how alternative investments can offer a compelling solution for investors navigating today's environment. These strategies can help diversify a portfolio, reduce the impact of higher volatility and uncertainty, and potentially hedge inflation while boosting returns and income in a low growth environment. A recurring theme in our outlook discussion across asset classes is the importance of partnering with an experienced manager, which is more important than ever in this uncertain environment.

Specifically, we discuss:

- **Infrastructure:** We explore how the current higher inflation, lower growth environment underscores the potential for infrastructure investments to provide stability and resilience in an investor's portfolio.
- **Private real estate:** We highlight several trends and signs that suggest private real estate is poised for further valuation improvement.
- **Private equity:** We examine how private equity deal activity remains selective in an uncertain environment, prompting managers to shift their focus away from the tailwind of multiple expansion to the more hands-on work of driving margin expansion.
- **Private credit:** We take a closer look at how the floating-rate nature of private credit matters in a market defined by elevated interest rates and uncertain future policy direction.

In addition, our quarterly Alts Market Dashboard shares data, market and investing insights that we find interesting from across the alternatives investing universe. Notable numbers include:

- **$153.5B:** Infrastructure deal volume reached $153.5B, the highest since 2021, marking a 130.5% year-over-year increase.[1]
- **8.9x:** Private equity deals saw higher valuations and lower volume in Q4, with median EV/EBITDA multiples reaching 8.9x across ~30 deals.[2]
- **12.3%:** Real estate deal volume rose 12.3% over the past year, driven by interest rate shifts and improved financing availability, with the average deal size reaching $71.4 million.[3]



With Infrastructure, Higher Inflation Has Its Benefits

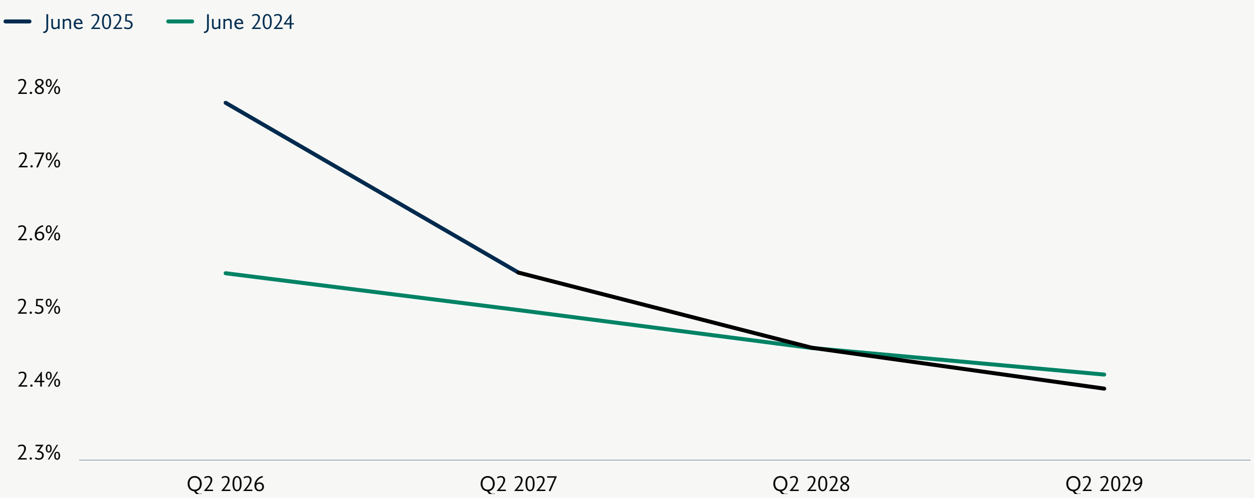
Infrastructure investing does not typically make headline news. Historically, it has generally been relatively immune to economic and market swings, while continuing to provide income for investors. That's exactly why it's so appealing in volatile markets.

It should come as no surprise, then, that given the current economic uncertainty, sticky inflation, and market volatility, infrastructure investments have shifted into focus as a highly compelling option for investors.

A Higher Inflation Environment

While inflation trended downward earlier this year, it ticked higher in May. Looking ahead, despite encouraging inflation data at the end of 2024 and into earlier this year, we believe there remains a strong probability that inflation stays persistently higher than average as we move further into 2025. Indeed, given the potentially significant increases in tariffs and concerns on the sustainability of long-term government finances, as shown in the chart below, market participants expect inflation to increase throughout the year. We remain, for the foreseeable future, in a low growth, high inflation world.

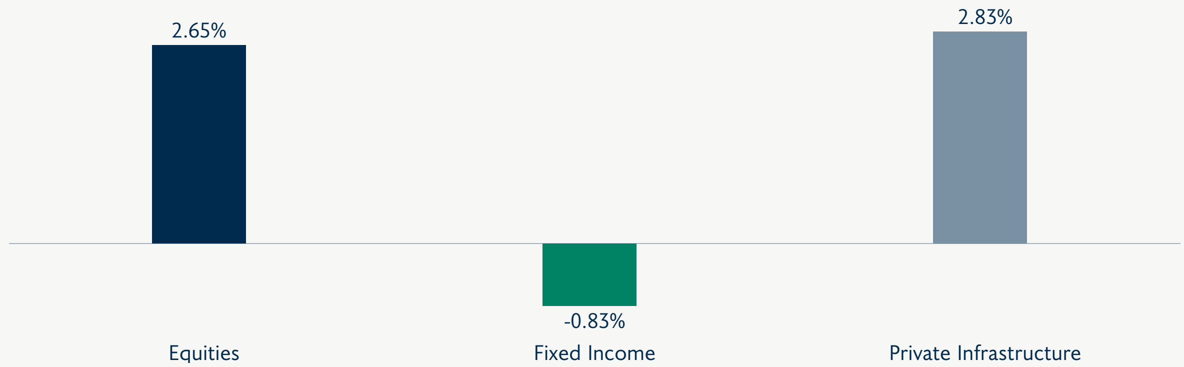
Figure 1: Inflation Expectations Are Materially Higher



Source: Cleveland Fed, as of June 2025. Projections are not guaranteed. Results may vary.

Against this backdrop, it is important to emphasize infrastructure's compelling ability to protect against inflation. This protection is achieved through two key benefits of the asset class. First, private infrastructure assets can directly benefit because they typically operate under long-term contracts that include automatic inflation-linked pricing escalators, which mean that their revenue grows when inflation moves higher. Second, private infrastructure can benefit through indirect pricing power. Even without explicit inflation protection, many asset owners are often able to pass through rising costs due to their strong market positions. As a result, infrastructure has historically performed well during periods of above-average inflation (See **Figure 2**), helping increase resilience in one's portfolio.

Figure 2: Infrastructure Has Historically Performed Well in Periods of High Inflation



For the period January 1, 2010 through December 31, 2024. Source: Bloomberg; Preqin. Equities refers to MSCI World Index; Fixed Income refers to the Bloomberg Global Aggregate Index; Private Infrastructure refers to the Preqin Private Infrastructure Index.

In addition, private infrastructure offers advantages over its public market counterparts. Although public infrastructure, REITs and ETFs can offer some inflation-adjusted income, their prices have historically followed broader stock market movements. Historically, higher inflationary periods have generally coincided with lower returns for publicly traded infrastructure investments. The advantage of private infrastructure investments is that their performance is typically tied more directly to actual contracts and cash flows, and therefore it is somewhat more insulated from the public market swings.

Manager Selection Even More Important

Manager selection always matters, but potentially higher inflation requires infrastructure asset managers to have particularly strong asset selection skills and a focus on infrastructure assets with resilient capital structures.

Since infrastructure assets are long-term in nature, selecting a manager for a portfolio with a strong track record is especially important when considering the risks a higher inflation environment brings to light. Managers should be focused on infrastructure opportunities alongside robust risk management frameworks, disciplined currency and interest rate hedging approaches, and conservative financing structures. By utilizing these strategies, the risk of persistent inflation can be mitigated and can create opportunities to take advantage of inflationary periods.

Summing Up

We believe infrastructure is a compelling investment opportunity due to its long asset life, stable earnings profile, and strong secular growth drivers. The asset class can enhance portfolio diversification through exposure to a different asset class with historically low correlation to traditional stocks and bonds. Because infrastructure assets are essential to the day-to-day functioning of society, the demand for these assets continues despite economic downturns. In our view, the current higher inflation, lower growth environment underscores the strategic importance of infrastructure investments in providing stability and resilience to an investor’s portfolio through economic cycles.

Private Real Estate: Signs and Trends Supporting a Rebound

As a levered asset class, real estate performance is inextricably linked to interest rate movements and the availability of financing. The start of the Fed's easing cycle last year therefore marked an inflection point for improvement in real estate values. Still, historically, real estate valuations have been slow to respond to rate cuts.

That could all be changing. We believe the sector is now poised to benefit from a number of economic tailwinds, with both cyclical and structural trends at play in the sector.

Cyclical Momentum

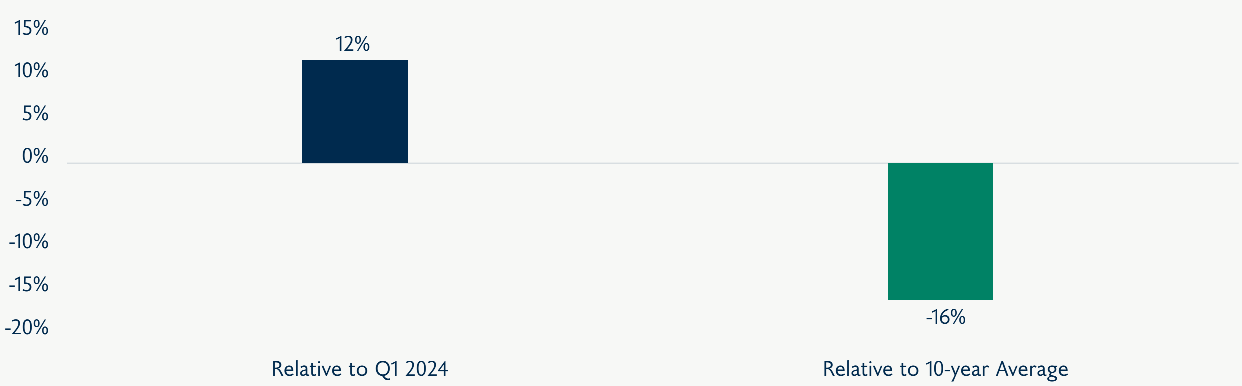
Sentiment around the asset class has been improving, as bidding interest has increased in recent months. This has translated to increased transaction activity, as shown in the chart below. Relative to the first quarter of 2024, real estate transaction volumes have increased by 12%. Real rates declined through the end of March, while commercial mortgage backed securities (CMBS) spreads stayed put, facilitating the most active first quarter for real estate transactions since the first quarter of 2022.[4] Early data suggests April transaction volume was also healthy, which is a good sign for the second quarter.

Although volumes are still low relative to the 10-year average, the improvement in the first quarter indicates the willingness of buyers and sellers to transact at the current level of financing and should translate into further price improvements down the road.

As a result, we have already seen marked price improvement; over the past 12 months, commercial property prices increased 3.4%.[4]

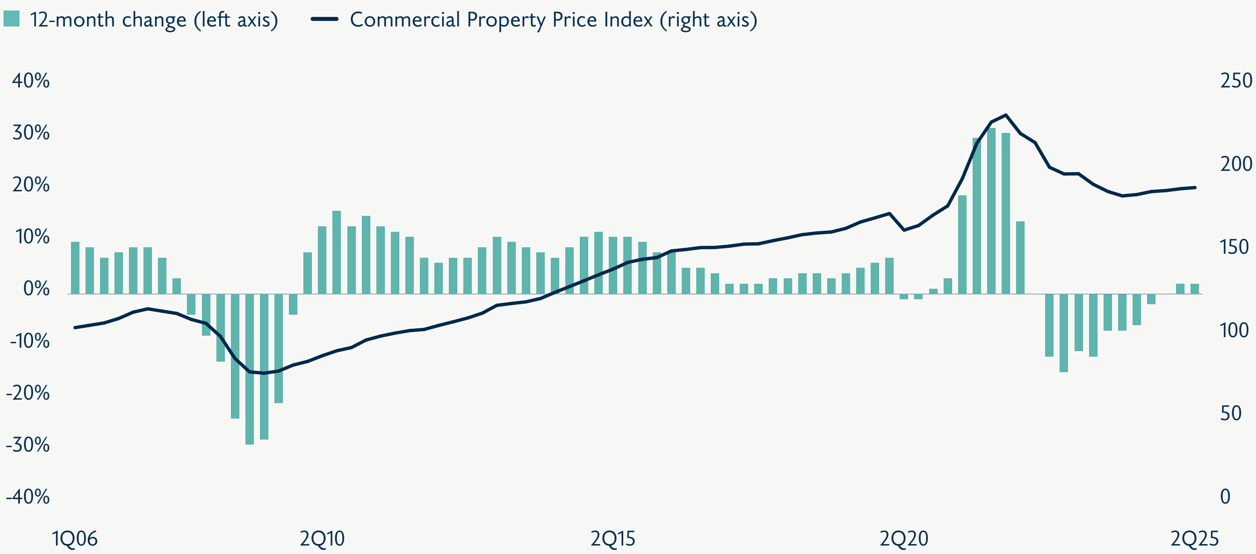
Unlike prior real estate cycles, real estate currently enjoys strong underlying fundamentals—outside of certain segments of the office sector—thanks to a tight labor market, relatively low supply and consistent demand. Income growth has remained strong, supporting many sectors, such as U.S. industrials and U.S. apartments, which are often tied to inflation.

Figure 3: As of Q1 2025, Transaction Volumes Are Materially Higher Than the Same Time Last Year



Source: Green Street Advisors, as of July 2025.

Figure 4: Commercial Property Prices Are Moving Higher



Source: Green Street Advisors, as of July 2025.

With improved valuations, especially in residential and logistics sectors, and more stable transaction pricing for key sectors, we believe many regional markets are likely well past the bottom of the cycle.

Structural Tailwinds

Among the most important drivers of returns for real estate investing are long-term structural trends. Take, for example, logistics facilities, which continue to benefit from higher demand based on longer-term trends, including the increasing digitization of daily life, the rewiring of supply chains and the reality of geopolitical tensions. This also can include properties that facilitate e-commerce, the growth of new trade partners, and stronger demand among tenants for energy-efficient buildings.

In the residential sector, meanwhile, shifting demographic trends are driving growth, including millennials forming families that need larger-format rentals, and Baby Boomers that need aging-friendly living situations. A persistent undersupply of affordable housing stock also equates to strong demand for rentals.

Summing Up

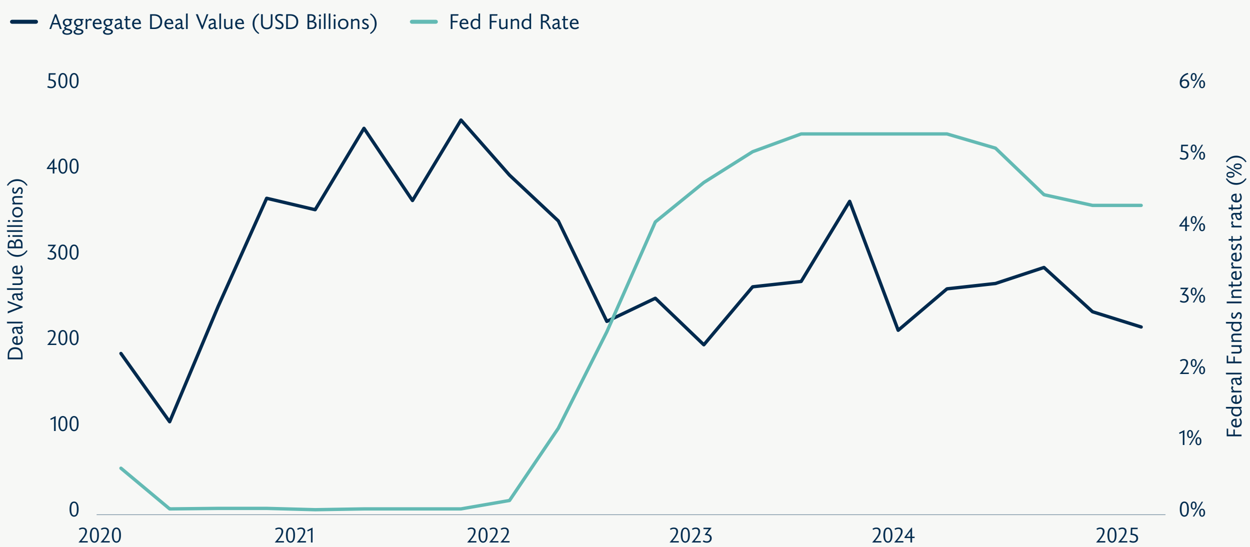
As we move into this new cycle, we believe it will likely look very different to the period following the global financial crisis, as the cost of capital is relatively higher. This in turn creates the potential for further dispersion in valuations, which translates into the potential for maximizing gains and losses in transaction values. A rising tide does not lift all boats, and dispersion in performance is likely both within and between sectors and markets.

This creates the potential for a widening gap between the winners and losers in the new real estate cycle. But this also creates greater potential for alpha generation. The skill of an experienced real estate manager with a track record navigating cycles is critical to achieving outperformance in periods of volatility.

Private Equity: Resilience Amid Uncertainty

Against a backdrop of economic and geopolitical uncertainty, private equity deal activity remains selective, with persistent scrutiny around valuation as investors adapt to a higher cost of capital and extended holding periods. However, looking forward, we believe private equity managers will need to heighten their focus on operational improvements and shift from benefiting from the tailwind of multiple expansion in favor of the gritty hard work of margin expansion.

Figure 5: Fed Fund Rate and Private Equity Deal Value



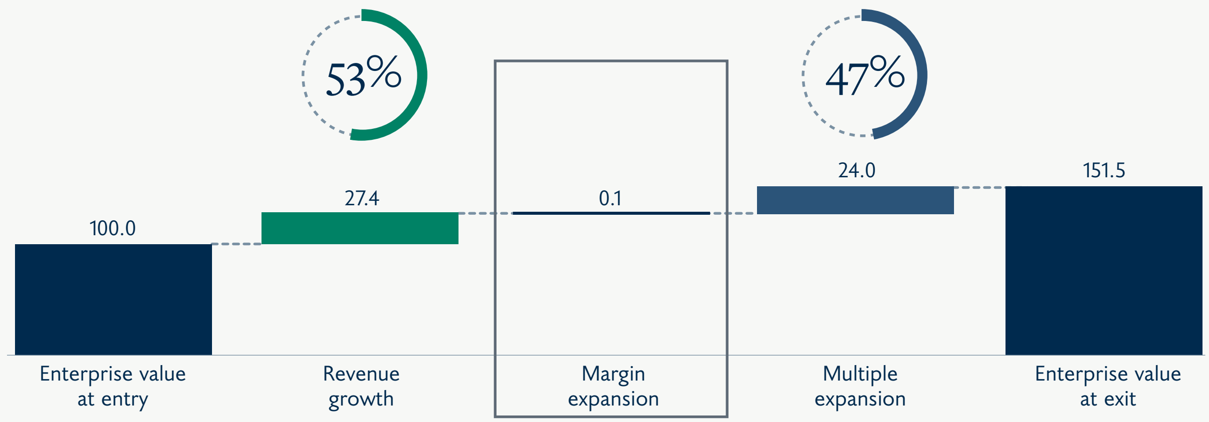
Source: U.S. Fed, Preqin, as of June 2025.

For years, private equity managers have benefited from multiple expansion, enabled by an era of near-zero interest rates. In essence, multiple expansion occurs when investors are willing to pay more for each dollar of a company's earnings—akin to rising P/E ratios seen in public companies over recent years.

Today, however, higher interest rates are putting downward pressure on valuation multiples, thus private equity value creation will increasingly depend on margin expansion, in other words, improving a company's profitability by increasing earnings relative to revenue—i.e., generating more profit per dollar of sales. Historically underemphasized, this factor contributed just 10 basis points to median value creation over the past decade, signaling meaningful room for improvement in a higher interest rate environment.

Figure 6: The Missing Middle: Future Returns May Depend on Margin Expansion

Median indexed value-creation drivers for global buyouts, (deal entry years 2013-23)

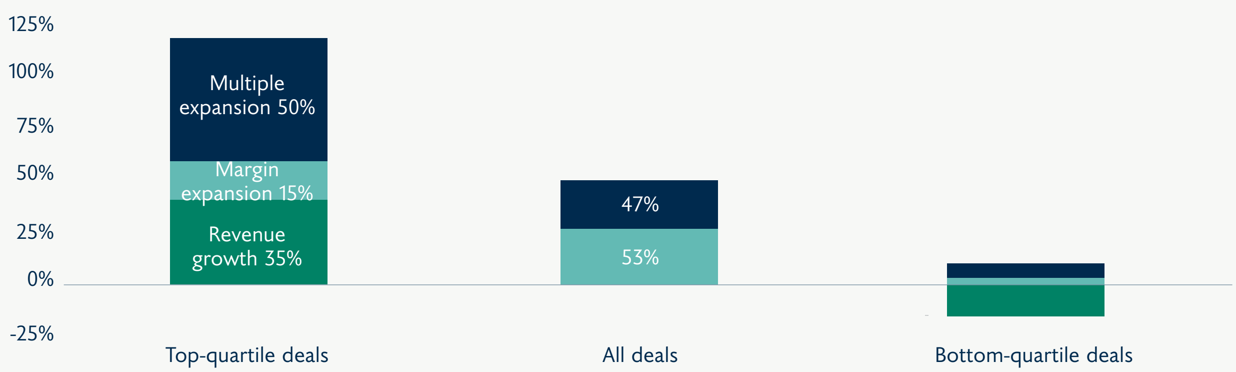


Notes: Indexed to enterprise value at entry; includes fully and partially realized global buyout deals by year of entry; includes deals with invested equity capital of $50 million or more; excludes real estate; all figures calculated in U.S. dollars.

Source: DealEdge, powered by CEPRES data: Bain 2024 analysis.

Despite this, margin expansion is still important for top-quartile private equity deals. As shown in **Figure 7**, margin expansion accounted for 15% of the value creation drivers for the top private equity global buyout deals.

Figure 7: Margin Expansion Is a Key Driver of Top-Performing Deals



Notes: Top- and bottom-quartile deals by internal rate of return; top and bottom quartiles include only deals with IRR data available; includes fully and partially realized global buyout deals by year of entry; includes deals with invested equity capital of $50 million or more; excludes real estate; all figures calculated in U.S. dollars.

Source: DealEdge, powered by CEPRES data: Bain 2024 analysis.

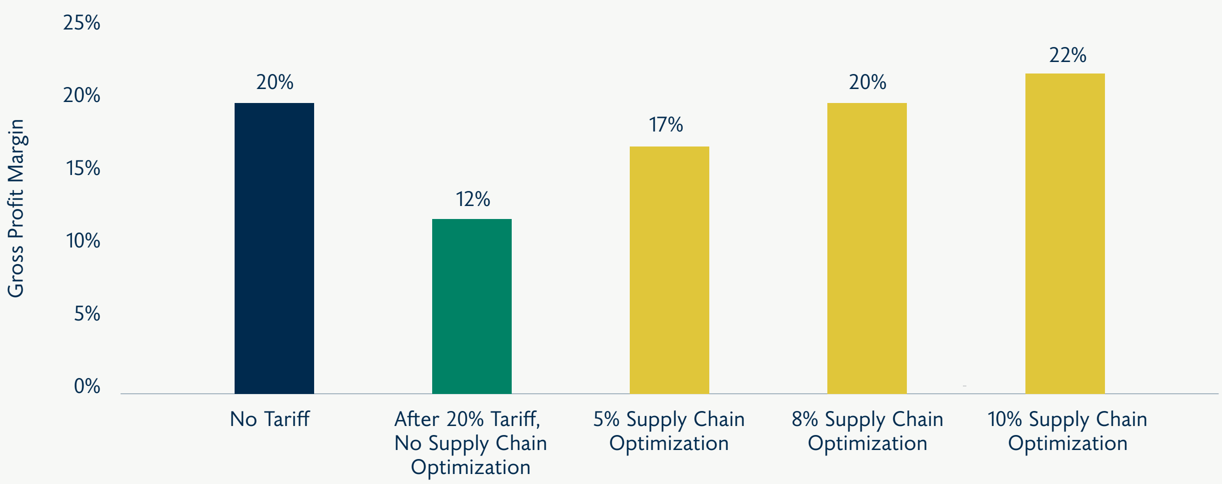
These outperforming investments have generated a significant share of their value creation through operational improvements and enhanced profitability. It also is important to note that top-quartile deals also commanded higher exit multiples—highlighting that investors are willing to pay a premium for businesses that demonstrate operational margin expansion.

The Art of Expanding Margins

Unlike multiple expansion, which is highly sensitive to market cycles and macroeconomic uncertainty, profit margins are more controllable. Private equity managers can create value—and build resilience—by expanding margins through operational expertise. This approach positions portfolio companies to perform more consistently, regardless of the prevailing interest rate environment or trade policy shifts.

According to a supply chain study, most companies operate with underperforming supply chains, often leaving 5 to 10 percentage points—and sometimes more—of gross margin gains unrealized. By improving supply chain efficiency, businesses can not only enhance profitability but also blunt or even fully offset the impact of external pressures such as trade tariffs (**Figure 8**).

Figure 8: Gross Margin Optimization Under Tariff Pressure



Illustrative analysis assumes a 20% tariff applied to 50% of cost of goods sold (COGS), resulting in a 10% increase in total COGS and an 8 percentage point reduction in gross margin (from 20% to 12%), assuming no cost pass-through. Gross margin recovery scenarios reflect operational efficiency gains of 5%, 8% and 10%, based on Bain & Company benchmarks for supply chain and cost transformation programs. Recovery percentages represent regained margin points relative to the original 20% baseline. All figures are illustrative and rounded for simplicity.

Source: Bain, Brookfield, 2018.

Summing Up

With valuation multiples under pressure and elevated interest rates likely to remain a structural feature, private equity managers must rely less on market-driven tailwinds and more on what they can directly control: operations. The ability to drive returns through margin expansion—improving efficiency, optimizing cost structures, and unlocking value at the portfolio company level—has become a critical differentiator.

This operational approach not only drives performance but also builds resilience amid uncertainty, enabling managers to create value independent of market cycles or macro conditions. In the new era of structurally higher rates, the capacity to generate returns through margin expansion may well define the next generation of top-performing managers.

Private Credit: The Floating-Rate Advantage

The ongoing market volatility and uncertainty has made private credit more attractive for investors who are seeking potential diversifiers and income providers for their portfolios. As we discussed in our last Alts Quarterly, private credit can play just such a role and can provide portfolios with some stability during periods of market stress. Private credit offers investors the potential for attractive income and risk mitigation, as well as important structural advantages well-suited to today's complex macro environment.

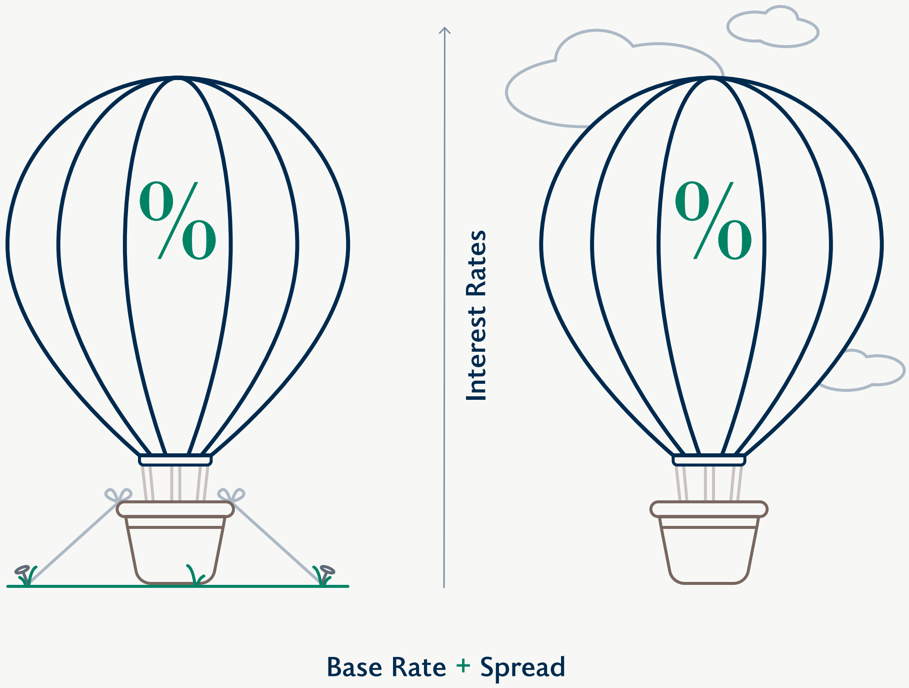
Among those structural advantages is the important feature of private credit's usage of floating-rate coupons. Let's take a closer look at why that matters, particularly in an environment where interest rates remain elevated while the future path of interest rates and inflation is uncertain.

The majority of private loans, from corporate direct lending to private asset-backed financing (ABF), include floating-rate coupons, which reset higher as base rates rise. This helps to support return potential even amid inflationary pressures.

Floating-rate coupons are typically indexed to a base rate like the Secured Overnight Financing Rate (SOFR), plus a fixed spread above it. As base rates rise, so does interest income, helping preserve or even enhance yield potential in rising rate environments.

In contrast, traditional publicly traded fixed income, such as investment-grade bonds and Treasuries, typically suffers in rising rate environments: Prices fall as yields rise. With fixed coupon payments, real (inflation-adjusted) income can erode over time (**Figure 9**).

Figure 9: Fixed-Rate vs. Floating-Rate



For illustrative purposes only.

Although the likelihood of further near-term rate hikes is low, it is important to note that rates remain elevated relative to recent years. As a result, private credit yields, driven by floating-rate coupons linked to SOFR, are currently quite attractive. Many floating-rate private credit instruments also include interest rate floors, ensuring a minimum yield even if rates decline. Additionally, privately negotiated agreements often include protections like repayment penalties, call protection, and call premiums, which can help stabilize returns during periods of flat or declining rate environments.

Floating-rate structures are common across many areas of private credit, including private ABF, where income is backed by real, cash-generating assets rather than solely a corporate borrower's enterprise value. It's also important to highlight how ABF can potentially help strengthen portfolios in volatile and uncertain markets. ABF portfolios are typically anchored by underlying asset performance (e.g., leases, loans, receivables), which can remain resilient even in low-growth environments. These assets may have shorter duration, contractual cash flows, and amortization schedules that help reduce sensitivity to market swings. Additionally, private ABF strategies tend to focus on sectors or asset types that are structurally insulated from broader economic cycles, such as aircraft leasing, music royalty streams, or mortgage pools. As a result, performance is often more dependent on operational performance of the assets than on macroeconomic conditions or credit markets. This combination of floating-rate structures and resilient, cash-generating assets is particularly advantageous in today's environment, where growth remains sluggish but interest rates are still elevated.

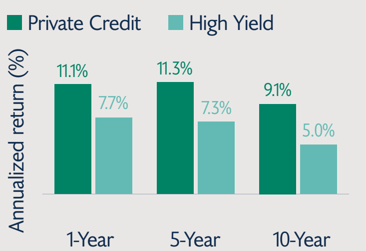
Summing Up

Today's backdrop of muted growth and rising inflation expectations presents several challenges for traditional stock and bond portfolios. In this environment, strengthening income streams can be a critical way to enhance portfolio resilience and keep investors on track toward their goals. The structural advantages of private credit—from corporate direct lending to private ABF—may offer an important edge in meeting this challenge.

Alts Market Dashboard

Below are some metrics to help investors interpret market conditions within various alternative asset classes. Brookfield and Oaktree believe the addition of both public and private alternatives can play an important role in an investor's portfolio.

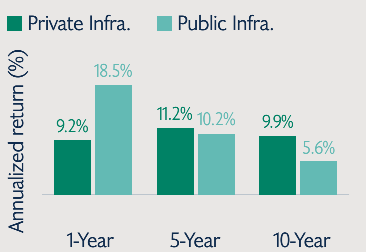
Credit



$42.9B Deal volume Q1 2025	10.14% Direct lending yield Q1 2025	7.45% High-yield yield Q1 2025	$465B Dry powder Q4 2024
+187.9% 1-year change	-71 bps YTD change	-24 bps YTD change	-2.9% YTD change

- Amid an environment where fewer funds are entering the market, private credit saw positive momentum as spreads tightened back near levels seen at the start of the year
- Refinancing has become a larger share of deal volume as both M&A and LBO activity remain muted

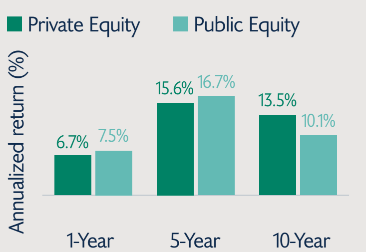
Infrastructure



$153.5B Deal volume Q1 2025	3.6% Public infrastructure yield Q1 2025	9.4x Public average EV/EBITDA multiple Q1 2025	$349B Dry powder Q4 2024
+130.5% 1-year change	-2 bps YTD change	-0.5x YTD change	-15.8% YTD change

- Private infrastructure fundraising reached ~$60B in Q1 2025 and was primarily driven by the demand for data centers and energy transition opportunities
- Public yields and valuations continued to demonstrate resilience, despite elevated interest rates and geopolitical tensions

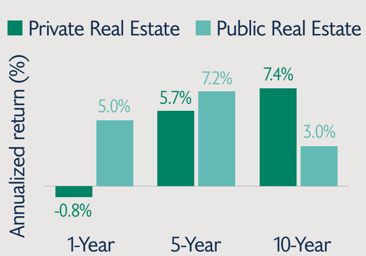
Private Equity



$453.9B Deal volume Q1 2025	87.0% Average secondary pricing Q4 2024	8.9x Median EV/EBITDA deal multiple Q4 2024	$2,755B Dry powder Q4 2024
+37.5% 1-year change	-120 bps Quarter over quarter	+1.4x 1-year change	-8.2% YTD change

- Private equity median EV/EBITDA deal multiples recorded a slight increase to 8.9x, marking a 1.4x rise over the past year
- 2024 deal value was higher than in 2023, but only Europe recorded a quarter-on-quarter increase during a slow Q4

Real Estate



$42.8B Deal volume Q1 2025	6.7% Average cap rates Q1 2025	2.3% 1-year net operating income growth Q1 2025	$585B Dry powder Q4 2024
+12.3% 1-year change	-10 bps Quarter over quarter	-1.4% vs. historical average	-13.6% YTD change

- Total Deal Value for Limited Partner (LP) direct investments in Europe increased by 175% from 2023, amid expectations of a recovery in valuations
- Real estate deal volume saw a positive one-year change of 12.3%, driven by interest rate shifts and the availability of financing

Past performance does not guarantee future results. The indexes are unmanaged and cannot be purchased directly by investors. Index performance is shown for illustrative purposes only and does not predict or depict the performance of any investment. Private Credit represented by Cliffwater Direct Lending Index; High Yield represented by Bloomberg U.S. Corporate High Yield Bond Index; Private Infrastructure represented by Preqin Infrastructure Index; Public Infrastructure represented by FTSE Global Core Infrastructure 50/50 Index; Private Equity represented by Preqin Private Equity Index; Public Equity represented by MSCI World Index; Private Real Estate represented by Preqin Real Estate Index; Public Real Estate represented by FTSE EPRA Nareit Developed Index.

Performance except for Private Credit, Deal Volume and Dry Powder data from Preqin are preliminary as of March 31, 2025 and are subject to revision, reflecting the Preqin Private Credit, Infrastructure, Private Equity, and Real Estate indexes, respectively.

Deal Volume refers to the cumulative value of deals that transacted during a specified time period. Net Operating Income (NOI) is a calculation used to analyze the profitability of income-generating real estate investments. NOI equals all revenue from the property, minus all reasonably necessary operating expenses.

Source: Bloomberg, Cliffwater, PEFOX Research, Preqin data (unless otherwise noted) as of March 31, 2025, the latest available for private market indices shown.

ENDNOTES

[1] Preqin, as of March 2025.

[2] Preqin, as of December 2024.

[3] Preqin, as of March 2025.

[4] Source: Green Street Advisors, as of July 2025.

A WORD ABOUT RISK

As an asset class, private credit comprises a large variety of different debt instruments. While each has its own risk and return profile, private credit assets generally have increased risk of default, due to their typical opportunistic focus on companies with limited funding options, in comparison with their public equivalents.

Because private credit usually involves lending to below-investment-grade or non-rated issuers, yield on private credit assets is increased in return for taking on increased risk.

Investments in real estate-related instruments may be affected by economic, legal or environmental factors that affect property values, rents or occupancies of real estate. Infrastructure companies may be subject to a variety of factors that may adversely affect their business, including high interest costs, high leverage, regulation costs, economic slowdown, surplus capacity, increased competition, lack of fuel availability and energy conservation policies.

Alternative investments often are speculative and include a high degree of risk. Investors could lose all or a substantial amount of their investment. High-yield bonds are subject to interest rate risk. When interest rates rise, bond prices fall; generally, the longer a bond's maturity, the more sensitive it is to this risk. Yields are subject to change with economic conditions. Yield is only one factor that should be considered when making an investment decision.

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INDEX DEFINITIONS

Bloomberg Global Aggregate Index is a market capitalization-weighted index, comprising globally traded investment grade bonds. The index includes government securities, mortgage backed securities, asset-backed securities and corporate securities to simulate the universe of bonds in the market. The maturities of the bonds in the index are more than one year.

Bloomberg U.S. 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.

Cliffwater Direct Lending Index (CDLI) seeks to measure the unlevered, gross-of-fee performance of U.S. middle-market corporate loans, as represented by the asset-weighted performance of the underlying assets of business development companies (BDCs), including both exchange-traded and unlisted BDCs, subject to certain eligibility requirements.

FTSE EPRA Nareit Developed Real Estate Index is an unmanaged market-capitalization-weighted total-return index that consists of publicly traded equity REITs and listed property companies from developed markets.

FTSE Global Core Infrastructure 50/50 Index gives participants an industry-defined interpretation of infrastructure and adjusts the exposure to certain infrastructure subsectors. The constituent weights are adjusted as part of the semi-annual review according to three broad industry sectors: 50% Utilities; 30% Transportation, including capping of 7.5% for railroads/railways; and a 20% mix of other sectors including pipelines, satellites and telecommunication towers. Company weights within each group are adjusted in proportion to their investable market capitalization.

MSCI World Index is a free-float-adjusted market-capitalization-weighted index that is designed to measure the equity market performance of developed markets.

Nasdaq Index is a market-cap-weighted index tracking companies traded on the Nasdaq stock market.

Preqin Infrastructure Index captures in an index the return earned by investors on average in their private infrastructure portfolios, based on the actual amount of money invested in private capital partnerships. Each data point is individually calculated from the pool of closed-end funds for which comprehensive performance data is held, as of both the start and end of the quarter.

Preqin Private Equity Index captures in an index the return earned by investors on average in their private equity portfolios, based on the actual amount of money invested in private capital partnerships. Each data point is individually calculated from the pool of closed-end funds for which comprehensive performance data is held, as of both the start and end of the quarter.

Preqin Real Estate Index captures in an index the return earned by investors on average in their private real estate portfolios, based on the actual amount of money invested in private capital partnerships. Each data point is individually calculated from the pool of closed-end funds for which comprehensive performance data is held, as of both the start and end of the quarter.

S&P 500 Index is a market-cap-weighted equity index of 500 widely held, large-capitalization U.S. companies.

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