

## How Alternatives acts as diversifier to help managing market dips

Willem:

Thanks for sitting down with me, Mathieu. In our 2026 Outlook, we take a positive view on global growth and corporate earnings outlook, thanks to AI innovation, R&D, re-onshoring and the build-out of infrastructure. But, of course, the high market expectations coupled with the end of the Fed rate cut cycle could lead to volatility. Alternative assets play an important role here. How would you incorporate Alternatives into a portfolio to effectively manage market dips while maintaining long-term growth?

Mathieu:

Alternative investments provide better returns per unit of risk compared to the traditional listed market, but there is no free lunch. It is at the expense of one thing: liquidity. Therefore, the most important assessment investors should do initially is to assess their liquidity needs. Do they need 100% of their portfolio to be liquid? Once they have decided what % of their portfolio can be illiquid, they should determine which type of market risk they want. Do they want to tilt their illiquid portfolio more towards fixed income type risk, credit type risk, equity type risk, etc. and then whether it is hedge funds, private credit, private equity, infrastructure, or real estate? They all provide a specific type of risk that fits one of those buckets.

Willem:

You mentioned hedge funds. Let's touch on that. Can you illustrate how hedge funds are going to weather and even actively exploit the current environment? What role do they play in portfolios?

Mathieu:

In the current environment, a balanced hedge fund portfolio is expected to return high single-digit per annum with a mid-single digit volatility. This is the equivalent of saying that you expect over the long-term equity-like returns with fixed income volatility. And it will show very little correlation to bond and equity markets. So, in an environment of heightened volatility and uncertainty, they provide this extra buffer in a portfolio to navigate bouts of market volatility, as we have seen in 2022. But as I said earlier, this is at the expense of liquidity. You cannot buy a portfolio of hedge funds one day and sell the next day. It has to be seen as a long-term allocation in an investment portfolio.

Willem:

I am also quite positive on private markets as an asset class, such as infrastructure, private equity and private credit. What is your perspective on the role of these in capturing opportunities from structural macroeconomic changes?

Mathieu:

Private markets are supported by long term structural tail winds which should turn into attractive returns for investors that can take illiquidity risk. Private credit has been benefitting for the past decade from

banks reducing their exposure to riskier loan. That has led to the emergence of direct lenders and the overall disintermediation of banks. This trend is here to stay.

That said, investors shall also be cognizant of the fact that, like any other credit asset class, defaults happen in private credit. Looking beyond the headlines, the overall credit metrics of the sector remain reasonably healthy and given the expectation of continued strength of the US economy, we believe private credit continues to provide healthy diversification in an investment portfolio.

Private equity also benefits from long term tail winds. The number of listed companies in the US has halved in 30 years. Companies stay private for longer. On average a start-up goes public after 16 years, 4 years later than just a decade ago. So, investors that want to invest into some of the themes of the future, have to look at private equity to get such exposure in their portfolio. Private equity had its challenge lately with limited exits and therefore limited distributions being paid back to investors, but 2025 is showing a rebound in distributions and performance remained strong.

And finally, infrastructure continues to benefit from the long-term tail winds of deglobalisation, decarbonisation and electrification of our economies and digitalisation. Take AI as an example. Beyond the focus on the latest large language models, the latest chips or the build out of data centers, the #1 limiting factor at the moment in scaling AI seems to be energy availability. Building power plants, connecting and enhancing the grid are essential infrastructure requirements for scaling AI.

So, in summary, private markets are a great way to further diversify portfolios across many different types of opportunities and risks.

Willem:

I think you have pointed out rightly. As we have underscored a lot, we need to 'diversify our diversifiers'. That is in part because equities and bonds have shown higher-than-usual correlation, so we definitely need Alternative assets in portfolios wherever appropriate.

But also within Alternatives, I think it is important to tap into variety, because they play different roles and tap into different opportunity sets. Variety is the spice of life, as they say, but it also helps to create more resilient portfolios.

Thank you, Mathieu.

Mathieu:

Thanks for having me.