
The Alts Institute

Understanding the Potential of Alternative Investments

Overview

Individual investors seeking ways to strengthen their portfolios and improve outcomes are increasingly turning to a solution previously out of reach: alternative investments.

Allocations to alternatives by individual investors are forecast to grow 12% annually for the coming decade.¹ A confluence of factors is driving this trend. New investment vehicles are making it easier to access alternatives. There is growing awareness of the benefits of investing in alternatives, with historical performance data showing that adding alternatives to a portfolio has improved investor outcomes. At the same time, investors are facing a challenging investment environment shaped by changing interest rates, stubborn recession concerns, elevated inflation, geopolitical tensions and public market volatility—leaving many with a sense that the traditional 60%/40% global equity/bond portfolio may be unsuitable for their needs and in search of solutions.

Although alternatives have been around since the 19th century (see **Figure 1**, next page), the term alternative investment means different things to different people. The standard definition is investments outside traditional stocks, bonds and cash instruments. This can include assets such as real estate or infrastructure, non-public assets like private equity or credit, as well as strategies such as long-short equity, or multi-asset hedge funds.

Institutional investors have long embraced alternatives; 86% invest in them, with an average total allocation of 23%.² However, individuals have been slower to adapt. Indeed, only one-quarter of individual investors have alternatives exposure, with an average allocation of 6%.³ Although there is growing acceptance of including alternatives in portfolios, many remain wary.

While we believe most investors should carve out an allocation to alternatives, the precise mix depends on an individual's objectives, risk tolerance and time horizon, as well as factors such as liquidity needs and tax situation. This report aims to demystify alternatives, explaining the differences among various choices with a specific focus on real estate, infrastructure, private equity and private credit, and how each can strengthen a portfolio.

This report will:

- Discuss the case for adding alternatives to a portfolio, highlighting how they can provide a meaningful role in a portfolio.
- Define four specific alternative asset classes, their attributes and potential outcomes. These are: real estate, infrastructure, private equity and private credit.
- Explore portfolio allocations, or how investors can improve a portfolio by using various alternatives to support their desired outcomes.

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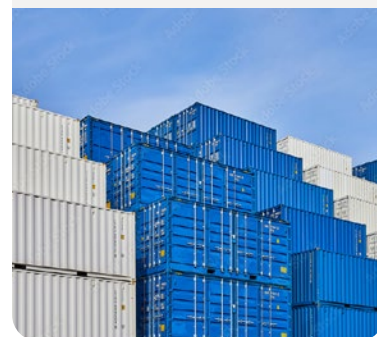
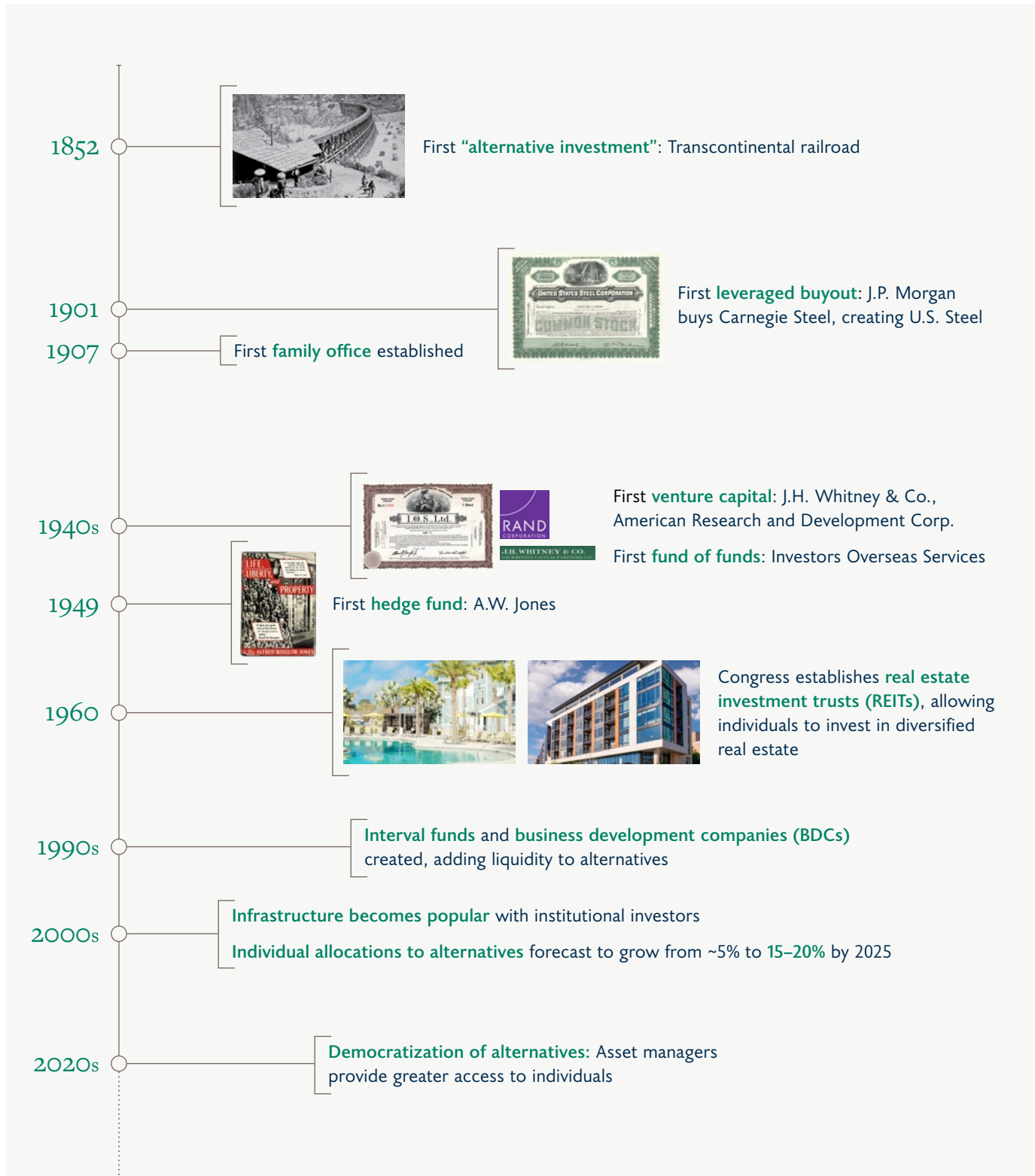


Figure 1: Alternative Investments Have Evolved Over More Than a Century



Source: Brookfield Asset Management. For illustrative purposes only.

The Case for Alternatives

Achieving financial goals is never easy, especially given the fact that the only certainty when it comes to investing is uncertainty. Rising or falling interest rates, economic variability, market volatility and geopolitical tensions, each of these can create a challenging backdrop for investors.

Amid this uncertainty, the classic—and still the best—portfolio construction strategy for investors is to be diversified, mitigating downside risk in difficult markets, while capturing upside opportunities. However, in recent years, traditional diversification has faced a notable challenge, namely an adverse shift in global equity/global bond correlations.

The correlation between global stocks and global bonds has risen sharply in recent years (**Figure 2**). Global equity and bond correlations hit a 10-year peak of 0.88 in 2023 (a correlation of 1 means stocks and bonds move in unison, while a correlation of -1 means they move in opposite directions), well above the 0.26 average over the decade from 2013-23. While the flurry of financial news lamenting the “death of the 60/40 portfolio” may be premature, there is little doubt that the traditional mix of public stocks and bonds has failed to offer the resilience most investors would prefer.

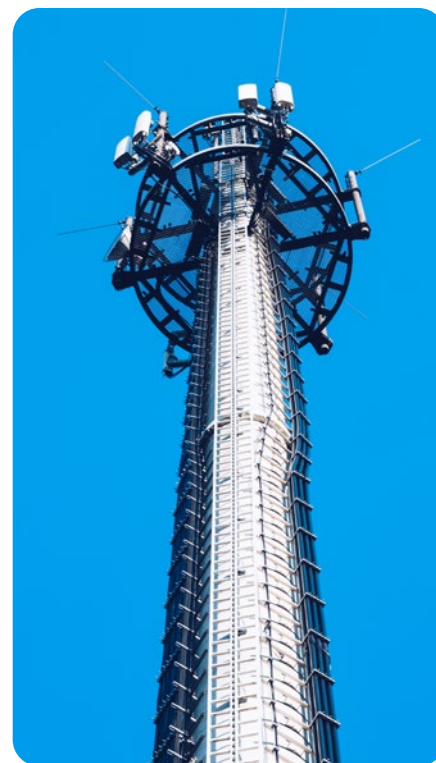
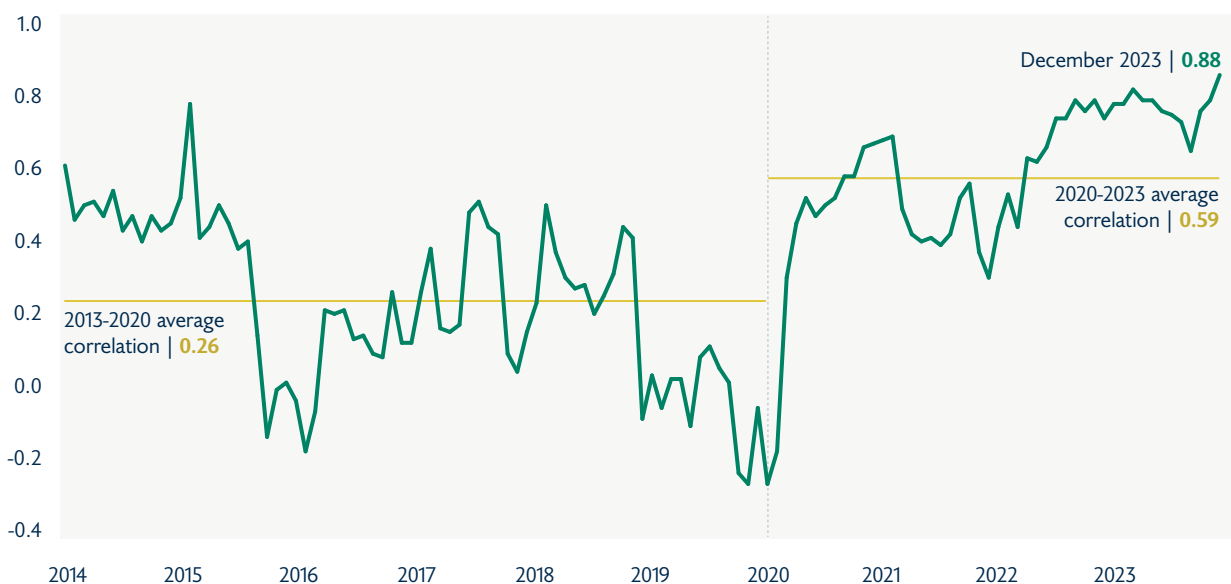


Figure 2: Correlations Between Global Stocks and Bonds Have Risen Sharply in Past Decade

Rolling 12-month global stock/bond correlations (January 1, 2013 - December 31, 2023)



Past performance is not indicative of future results. An investor cannot invest in an index. Global Equities represented by the MSCI World Index, Global Bonds by the Bloomberg Global Aggregate Index. Source: Morningstar, Brookfield. As of December 31, 2023.

A Potential Solution

A viable solution to the diversification conundrum is to add alternatives to a portfolio. Although alternative investments can mean different things to different people, they generally refer to anything outside of the traditional mix of public global equities, global bonds and cash. Investors often use “alternatives” as an umbrella term for a range of asset classes, strategies and types of vehicles, each of which can offer different portfolio benefits. Many assume that alternative asset classes are mainly accessible through private markets, yet they can also be accessed via the public markets. We believe what the various forms of alternatives have in common is an ability to make portfolios more resilient by providing opportunities to increase diversification.

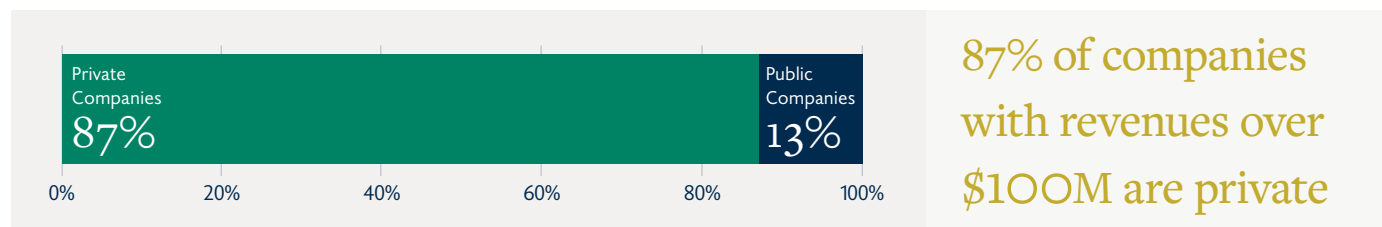
Figure 3: The Alternative Investing Universe

	Definition	Examples
Asset classes	Investments beyond conventional stocks, bonds and cash.	<ul style="list-style-type: none"> Various asset classes in both public and private markets: private credit, commodities, hedge funds, private equity/venture capital, real estate, infrastructure.
Investment strategies	Specific approaches/methods investors use to gain exposure to alternative assets.	<ul style="list-style-type: none"> Hedge funds: long/short equity, macro, event-driven, market-neutral, arbitrage. Real estate/infrastructure: core, core-plus, value-add, opportunistic, debt, secondaries. Private equity, from venture capital to buyouts and distressed investments.
Investment vehicles	Structures/entities/feeder funds that pool investor capital to invest in alternatives.	<ul style="list-style-type: none"> Limited partnerships (LPs), limited liability companies (LLCs), mutual funds, closed-end funds, business development companies (BDCs), real estate investment trusts (REITs), etc. Funds investing in specific alternatives or employing a particular approach.

Source: Brookfield Asset Management.

As an example of how alternatives can help improve portfolio diversification, consider private markets. More than 87% of companies with revenues >\$100 million are privately held. Investing in these companies alongside their publicly traded counterparts seeks to offer an effective way to enhance exposure to equities and thereby diversify and strengthen a portfolio.

Figure 4: The Vast Majority of Firms With Annual Revenues >\$100M Are Private



Source: Capital IQ. As of December 31, 2023.



This paper focuses on four alternative asset classes: real estate, infrastructure, private equity and private credit. We do not suggest that these are the only alternatives investors should consider. However, we believe these alternative investments can complement traditional global stocks and bonds and have the potential to improve investor outcomes (**Figure 5**).

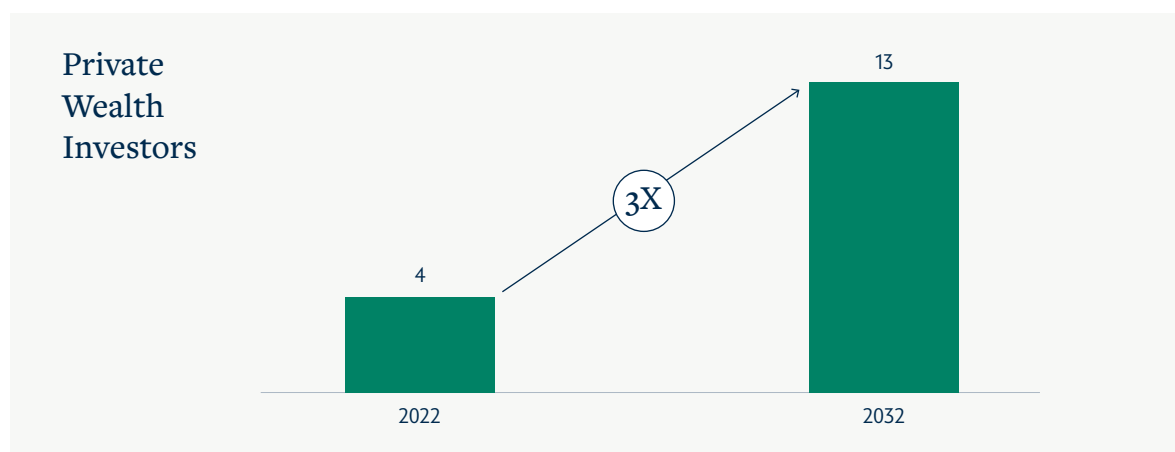
Figure 5: Potential Benefits of Adding Alternatives to a Portfolio

Enhancing returns	Income generation	Risk mitigation	Inflation hedge	Diversification ⁴
Private equity can complement public equities by adding potentially higher returns. Likewise, private credit can offer higher returns when added to public corporates.	Yield-oriented real estate, infrastructure and private credit can provide differentiated income streams to a portfolio.	Alternatives can mitigate market and economic risks. Private market investments offer lower volatility versus their public counterparts, helping buttress portfolios against volatility.	Infrastructure and real estate have historically offered hedges against spikes in inflation that can be detrimental to other asset classes.	These benefits support the most important one: Alternatives increase portfolio diversification.

These are the main reasons why institutional investors have long embraced alternatives, using them to supplement stocks and bonds as part of their basic asset allocation. While certain alternatives have been available in the public markets, until recently, private market solutions were largely inaccessible to individual investors. But in the last decade or so, more managers have offered new strategies and investment vehicles that make private markets more accessible, putting alternatives within the reach of a growing number of investors. Nevertheless, individual investors remain significantly under-allocated to alternatives, and trail far behind their institutional counterparts in adoption (**Figure 6**). This is changing as financial advisors turn to alternatives to strengthen client portfolios. We believe, therefore, that the usage of alternatives by individual investors is poised to increase significantly in the coming years.

Figure 6: Individual Investor Allocations to Alternatives Growing Faster Than Among Institutions

Global alternative AUM growth by investor type (estimated \$T)



There is no assurance that such events or projections will occur. Actual outcomes may be significantly different than those shown. For illustrative purposes only. Private Wealth Investors include mass affluent (\$100K-\$1M), high-net-worth (\$1M-\$5M), very-high-net-worth (\$5M-\$30M), ultra-high-net-worth and family offices (\$30M). Source: Preqin, Bain & Co., as of February 2023.

Real Estate

What It Is

Real estate is arguably one of the oldest investment options, a well-established asset class that has historically offered the potential for growth, income, tax benefits, a hedge against inflation, and low correlation with other asset classes. Real estate comes in many forms, spanning a multitude of sectors, but it can be broadly classified into three main categories (**Figure 7**):

- **Residential real estate:** Properties for living—houses, apartments, and condominiums, including single-family and multifamily homes, and student and senior housing. It can encompass both existing structures and new developments, but in either case, investors are focused on either rental income or property appreciation.
- **Commercial real estate:** Properties used for business, such as office buildings, retail spaces, hotels and office parks. These investments generally focus on income generated from leasing.
- **Industrial real estate:** Factories, research & development, storage, logistics and warehousing. Industrial investors are generally focused on the potential rental income from businesses.

Each category offers varying income, return and risk targets, which differ depending on the underlying assets, and factors such as location, market conditions and property type. For that reason, we believe diversifying across real estate sectors is the best way to build an optimal real estate portfolio.

Figure 7: Real Estate Falls Into Three Broad Investing Categories



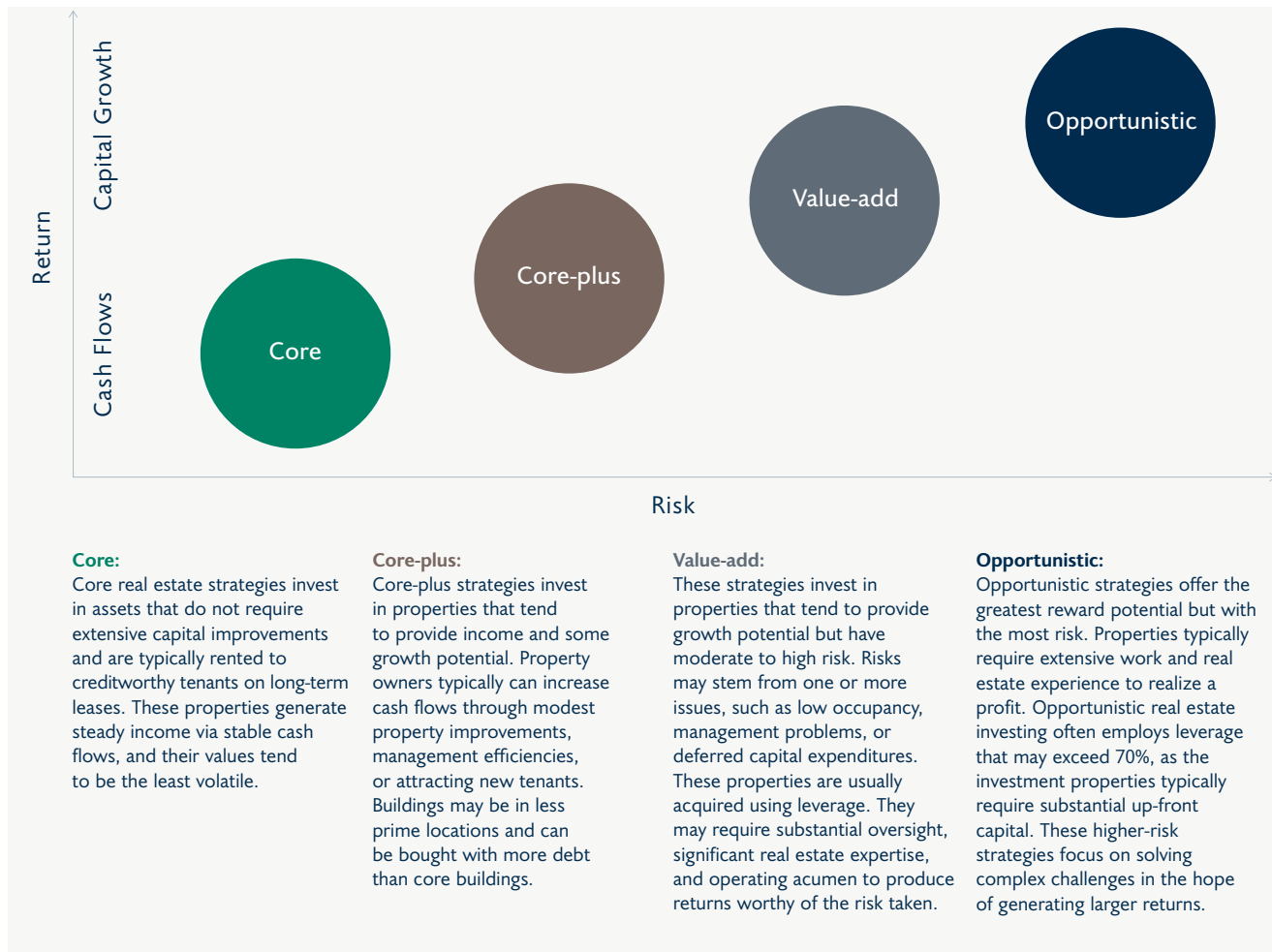
Source: Brookfield Asset Management. For illustrative purposes only.



Strategies

Just as real estate encompasses a range of different building types and properties, real estate investing includes a range of strategies, each with different risk-return profiles (**Figure 8**). An income-focused investor with a more conservative risk tolerance might lean toward a core or core-plus strategy, while another appreciation-focused investor seeking greater profit in exchange for higher risk would seek a value-add or opportunistic strategy.

Figure 8: Real Estate Encompasses Various Risk Profiles



Source: Brookfield Asset Management. For illustrative purposes only.

Investors can access real estate directly by purchasing a property or through investing in a variety of private and public market vehicles. Private closed-end funds offer longer fund terms—typically around 10 years—that give managers the flexibility to acquire, rehabilitate and exit assets, which is often a multiyear process. Public real estate exposure is available through both traded and non-traded real estate investment trusts (REITs) and other evergreen fund structures.

Investors may also consider real estate debt strategies that provide financing, refinancings and recapitalizations. Debt investments are also varied across property types, from core properties to opportunistic development projects. Like global bonds, real estate debt investors get returns from cash flows rather than from the appreciation of the underlying real estate.

Potential Benefits and Outcomes

Real estate often provides a stable anchor to a portfolio, partly due to slow changes in asset valuations and consistent income from real estate property cash flows. This stability often applies to both public and private real estate investments.

For example, public real estate investments often display lower volatility than the greater global equity markets, and can sometimes be used as a hedge to other equity investments. Public real estate also offers the advantage of liquidity and steady dividend income from regular distributions. Meanwhile, private real estate investment returns are typically higher because investors forgo daily liquidity in exchange for enhanced potential long-term growth. A core private real estate investment allocation has historically increased returns and lowered volatility (**Figure 9**) when used to augment a traditional global equity and bonds portfolio.

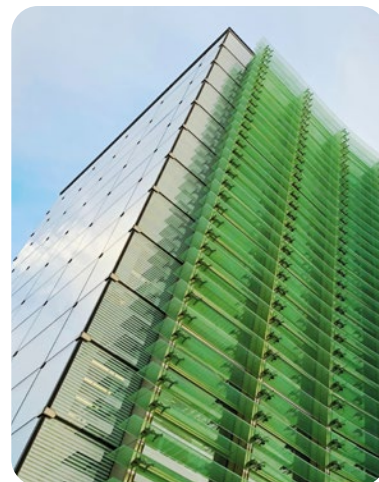
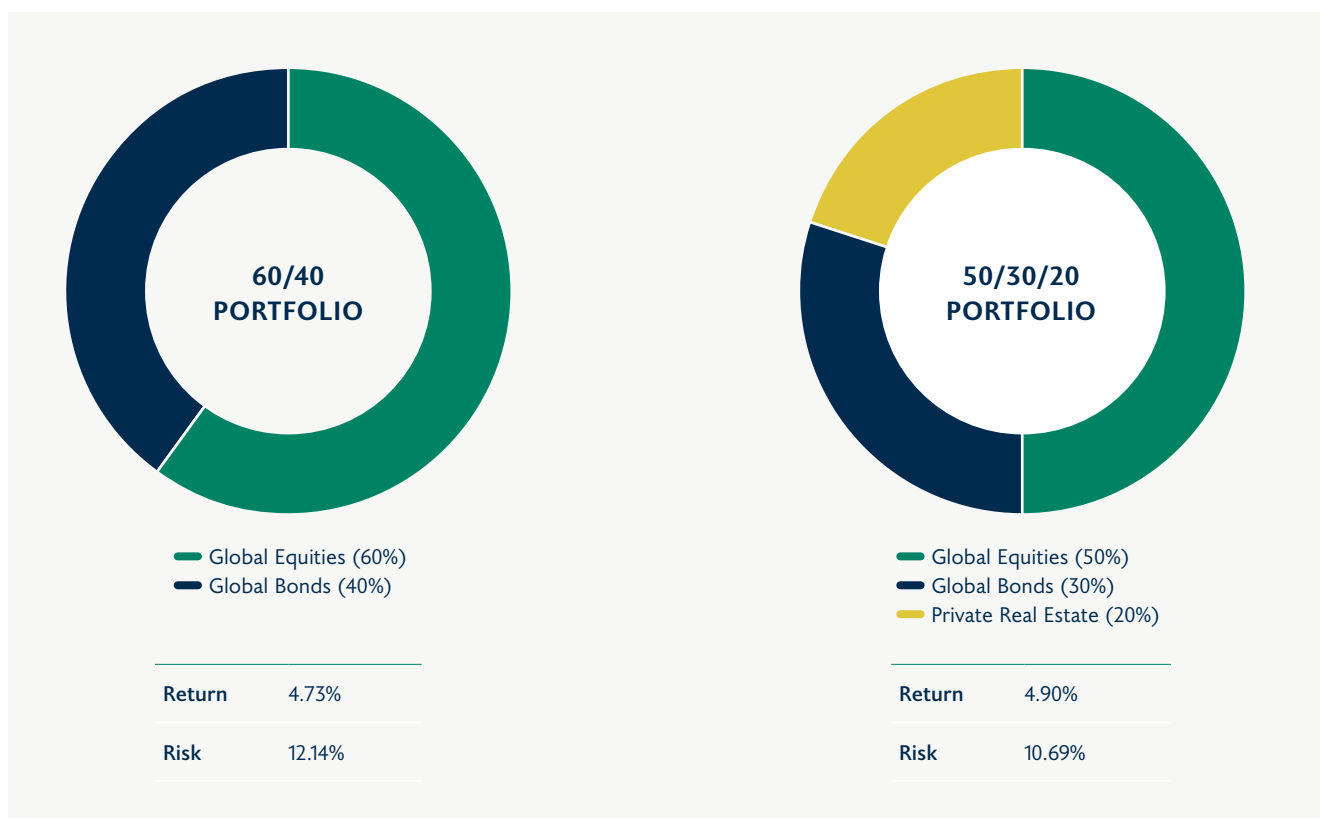


Figure 9: Real Estate Has Historically Improved Outcomes



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Infrastructure

What It Is

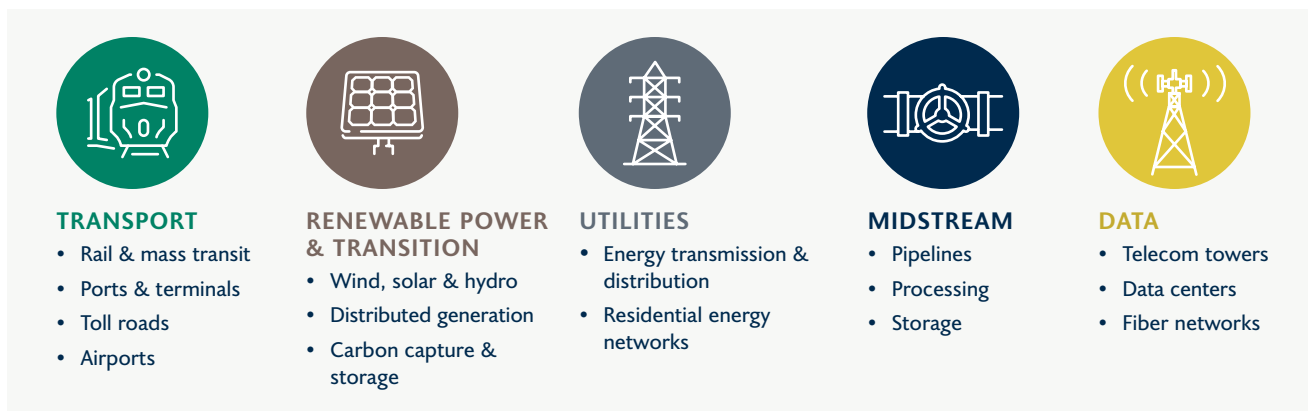
Infrastructure is a broad term for assets that provide the essential services underpinning the global economy, moving people, goods, commodities and data to where they are needed most. As with real estate, the category is broad and varied. It includes transportation—everything from roads and bridges to ports and airports—utilities and power transmission, and midstream assets such as pipelines, processing and storage facilities. The opportunity set for infrastructure continues to grow as new technologies and needs emerge, such as renewable power and data (**Figure 10**).

In short, infrastructure is remarkably diverse, encompassing a range of facilities and projects. Still, these various sectors generally share a set of common characteristics. They:

- **Provide essential services:** Assets such as utilities that bring power and water to our homes, ports that move goods globally, and cell towers that keep us connected, represent essential services, for which demand is generally inelastic (usage isn't affected whether prices rise or fall). These essential services have provided stable cash flows and, often, growth, even during recessions.
- **Have high barriers to entry:** Aside from providing essential services, infrastructure assets typically enjoy high barriers to entry. Most infrastructure is costly to build and is often placed in specific locations, making it very difficult for new competitors to enter the market. As a result, many infrastructure assets have dominant market positions.
- **Enjoy long operational lives:** Infrastructure assets typically serve as the foundation of a local or regional economy and are constructed to last for decades. Many are designed to operate for 30, 40 or 50 years, or even perpetually, also contributing to the long-term stability in cash flows.
- **Include contracted/regulated revenues with inflation protection:** These assets are often supported by long-term contracted or regulated revenues. Revenues may have built-in inflation links, whether through a contractual agreement or the ability to pass along rising costs.
- **Have high operating margins:** Infrastructure assets' ongoing operating costs are relatively low and generally are fixed. This, combined with a generally growing revenue profile, tends to help profitability grow over time.

The combination of these characteristics tends to result in a predictable and growing cash flow profile, which helps infrastructure asset values remain relatively steady throughout the economic cycle.

Figure 10: From Railways to Fiber, Infrastructure Forms the Backbone of the Global Economy

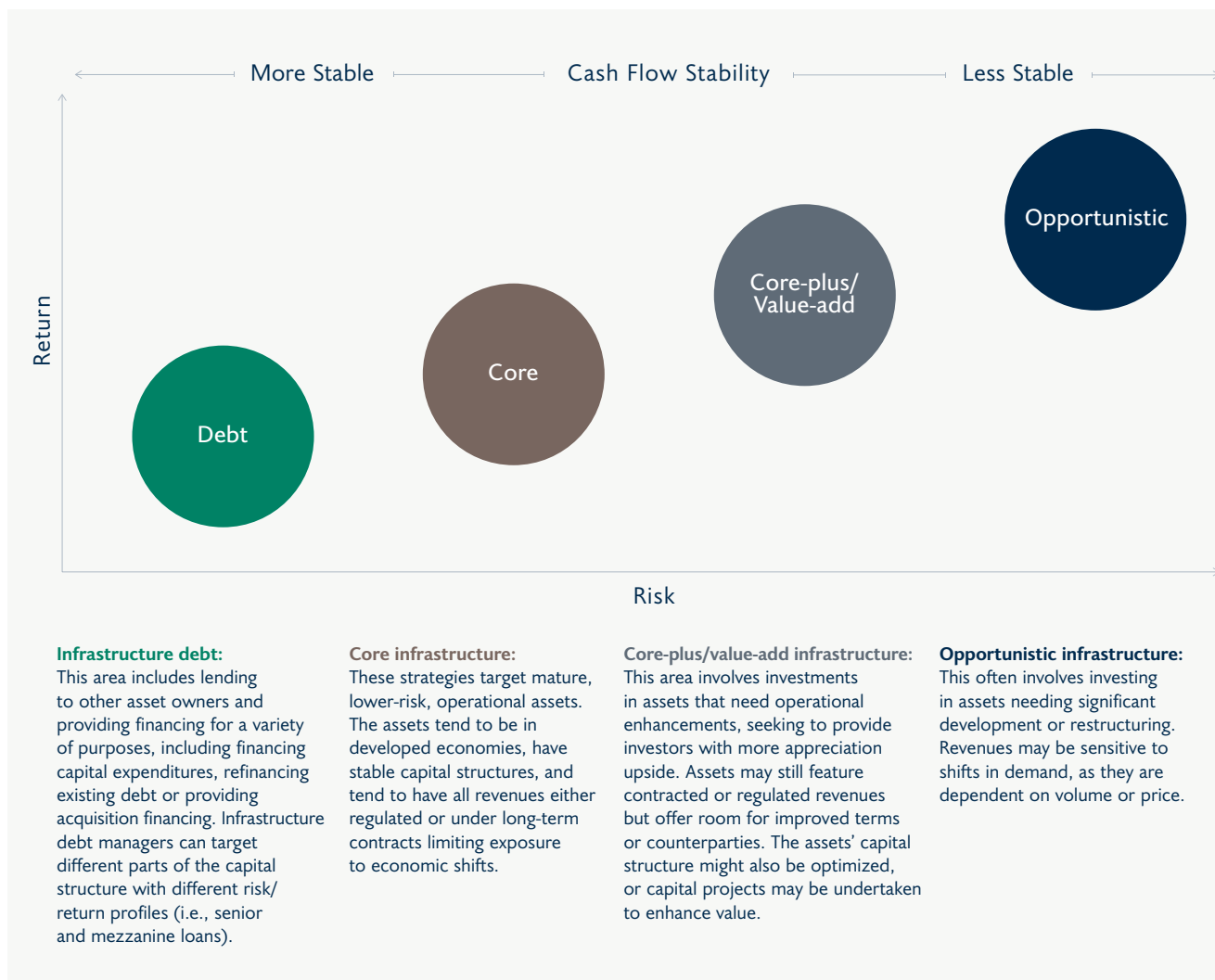


Source: Brookfield Asset Management. For illustrative purposes only.

Strategies

Similar to real estate, infrastructure assets are available to investors in both public and private markets. As such, investors can consider a range of strategies across both public and private markets aligned with their personal risk/return preferences to access the asset class.

Figure 11: Infrastructure Strategies Across the Risk-Return Spectrum



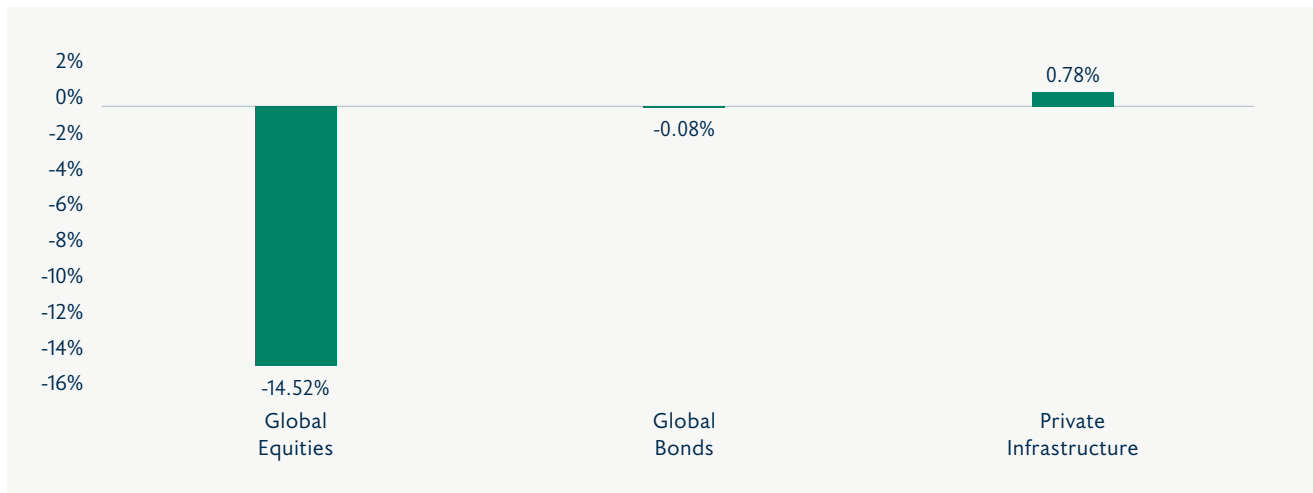
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Potential Benefits and Outcomes

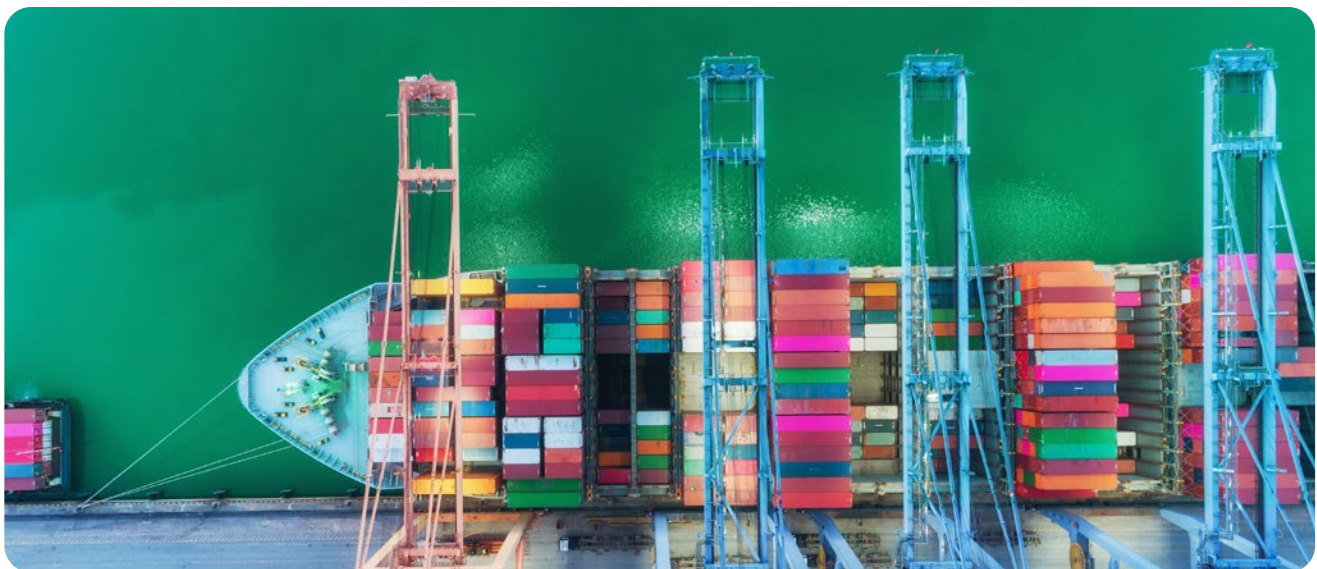
A key benefit of infrastructure is its historical ability to perform well throughout various market cycles, a quality directly related to the stability of these asset values. Historically, infrastructure assets have grown their revenues due to their essential nature—even during recessions. As a result, infrastructure has historically performed well during times of market uncertainty (**Figure 12**). Over the past 15 years, during the 10 worst quarters for global equities, private infrastructure not only outperformed stocks and bonds but enjoyed *positive* returns.

Figure 12: Private Infrastructure Outperformed Global Equities and Global Bonds During Worst Quarters

Average quarterly returns during 10 worst quarters for equity markets (January 1, 2008 - September 30, 2023)



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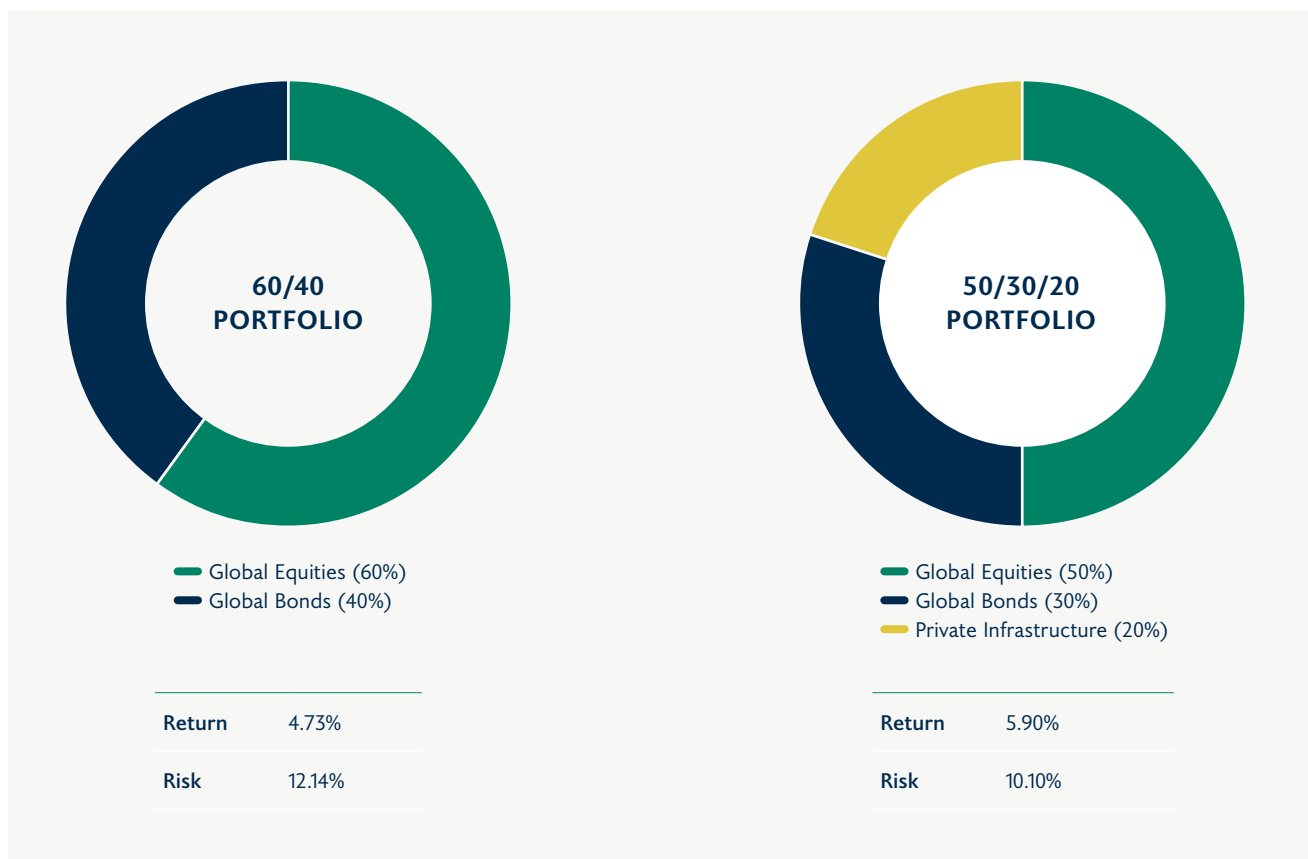


For example, adding private infrastructure to a portfolio can help mitigate risk while also enhancing returns and adding diversification. Meanwhile, investing in listed infrastructure provides investors with the ability to take advantage of short-term market opportunities, as market volatility can provide an opportunity for skilled professional managers to take advantage of mispricing. We believe investors should consider incorporating both public and private investments.

Overall, adding private infrastructure has historically improved outcomes for investors. It has historically increased returns and lowered volatility (**Figure 13**) when used to augment a traditional equity and bonds portfolio.



Figure 13: Adding Private Infrastructure to a Portfolio



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Private Equity

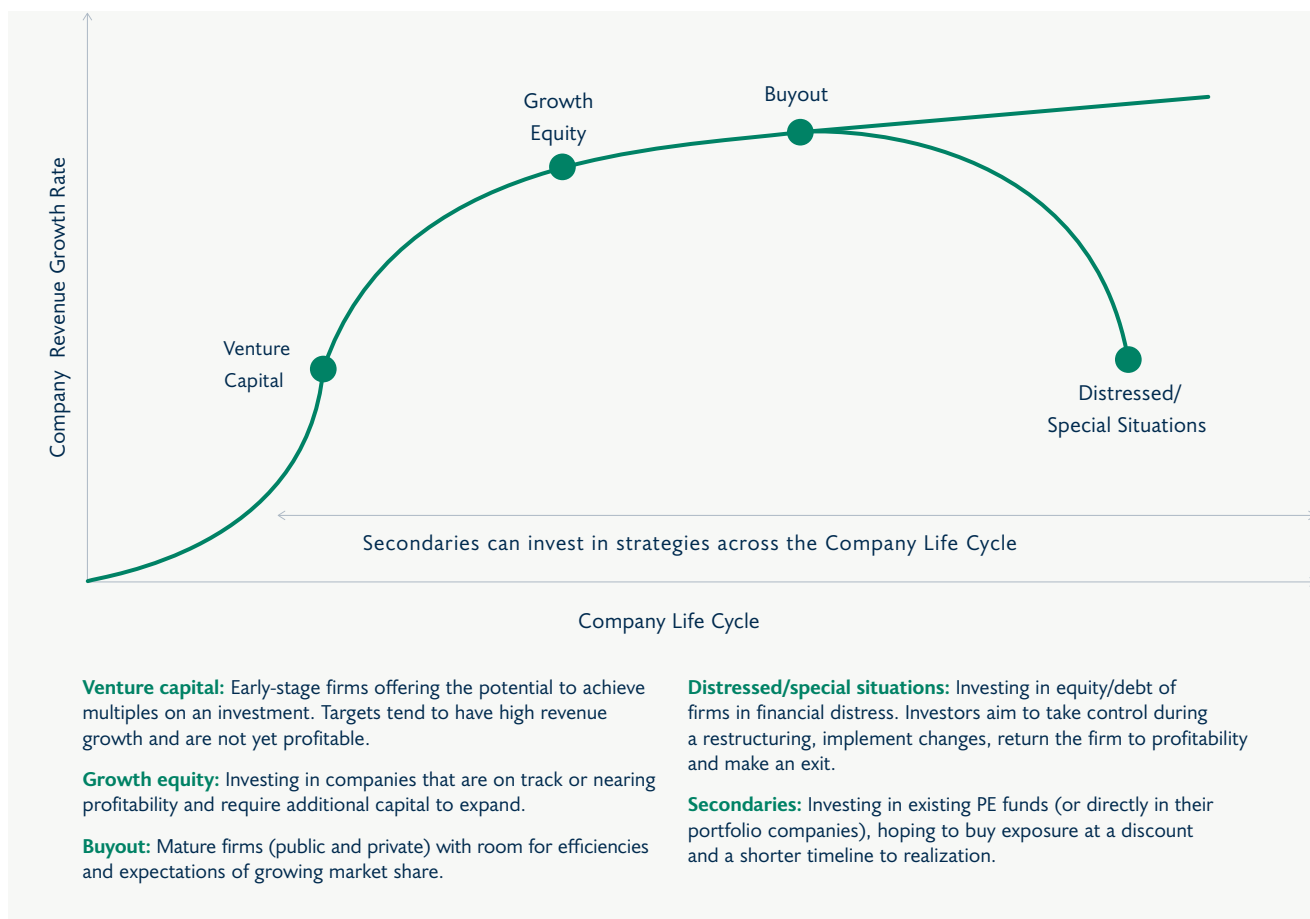
What It Is

Private equity (PE), as the name suggests, involves making investments in companies that are not publicly traded. It ranges from early-stage venture capital to leveraged buyouts of mature firms. Various PE strategies tend to follow a similar path: identify and buy a promising firm, implement organizational changes to drive growth, and improve operational efficiency to increase value. Eventually, the investor “exits,” via an initial public offering (IPO) or by selling their investment to another buyer. PE is the largest private markets asset class, accounting for over 67% of the global \$15.1 trillion private asset market.⁵

Strategies

Investors typically use PE to complement public equity and enhance overall returns. PE typically draws on many of the same considerations as public equity, including growth rate, profitability, and quality of management. However, it adds additional unique traits that alter its risk/return profile and differentiates it from public equity, most notably illiquidity. The combination of PE with public equity can therefore enhance portfolio return potential. PE strategies have a variety of risk levels, largely based off of the company's stage of maturity (**Figure 14**).

Figure 14: Private Equity Facilitates Investing in Companies at Different Stages of Development



Source: Brookfield Asset Management. For illustrative purposes only.

Potential Benefits and Outcomes

PE offers access to a broader investment universe; as noted earlier, 87% of U.S. companies with annual revenues more than \$100 million are private.⁶ Therefore, investors deploying capital into both private and public equity markets can maximize the available investment universe, resulting in greater diversification and potential for strong investment outcomes.

Relative to public markets, private equity markets are more complex, less transparent and have fewer investors to arbitrage away market inefficiencies, potentially creating conditions for additional returns. For example, shares of private companies do not trade on an exchange, unlike public equities, so investors demand an additional return, or an illiquidity premium, in exchange for investing in a difficult-to-trade asset.

A key characteristic of PE is its ability to alleviate companies of the short-term pressure of managing quarterly public earnings to instead focus on implementing operational efficiencies and helping scale the business over the longer term. Indeed, PE has historically provided investors with strong performance relative to public equities, whether looking at performance for the past three, five or 10 years (**Figure 15**). So, investing in PE alongside public stocks aims to offer an effective way to enhance equity returns in a portfolio.

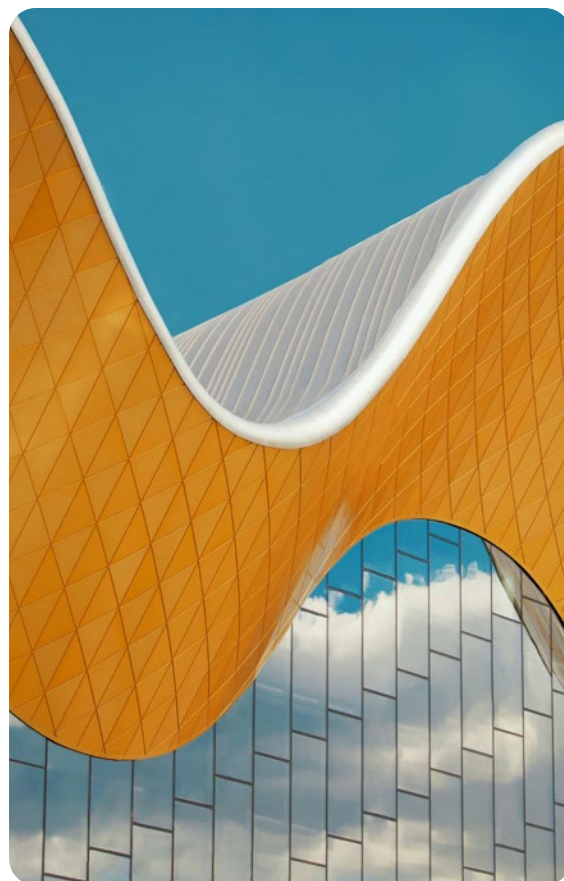
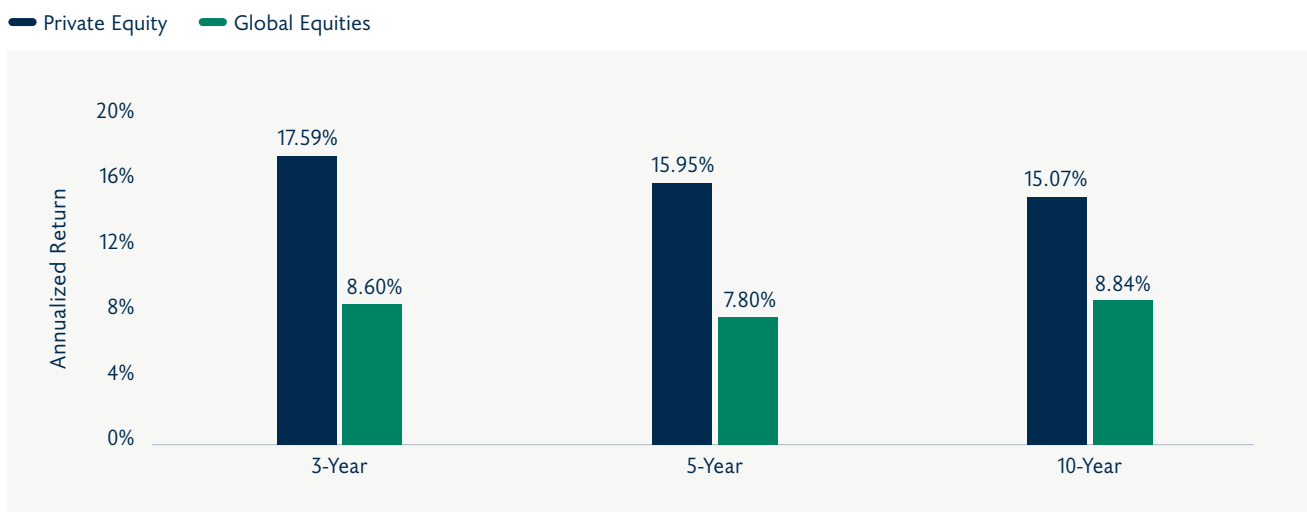


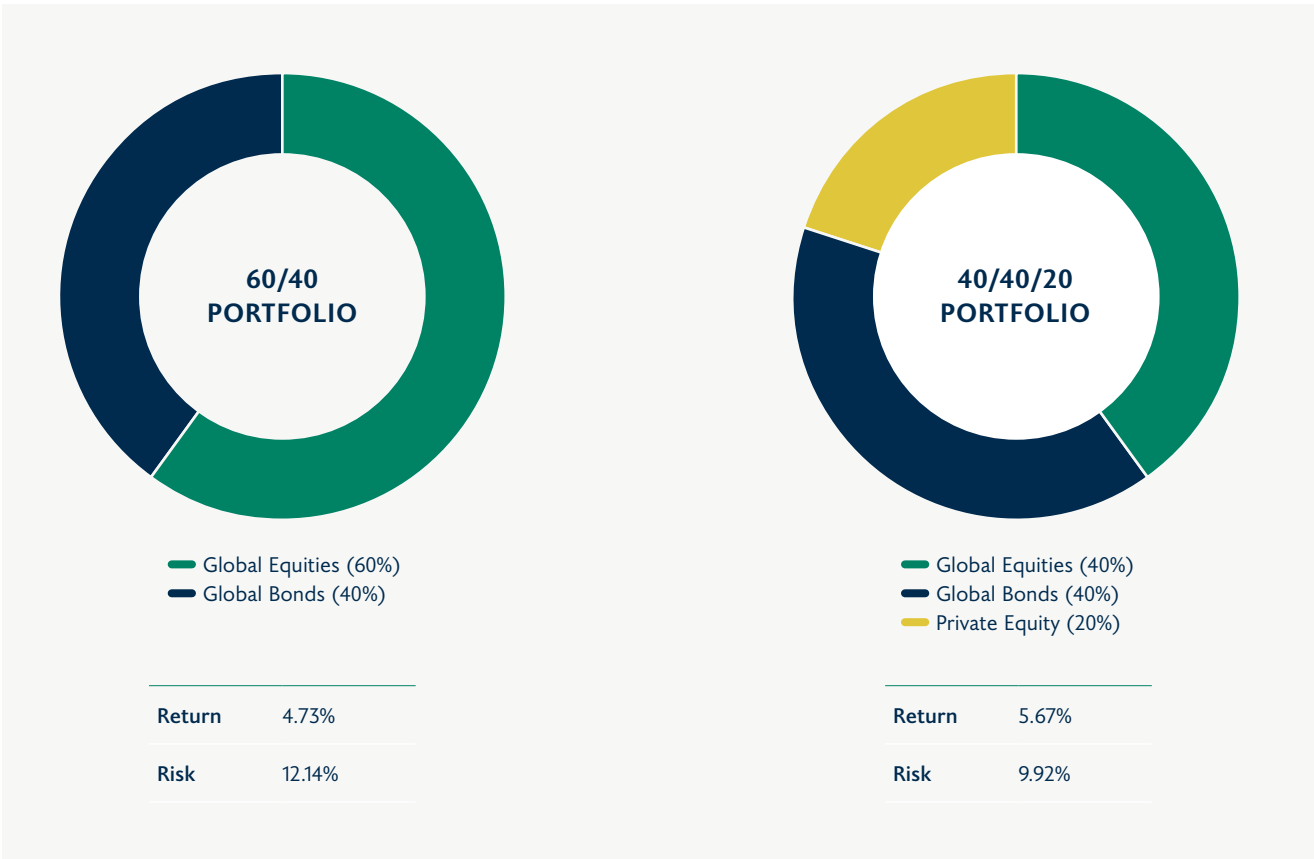
Figure 15: Private Equity Has Outpaced Public Equity for Past Decade



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Figure 16: Private Equity in a Portfolio



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Private Credit

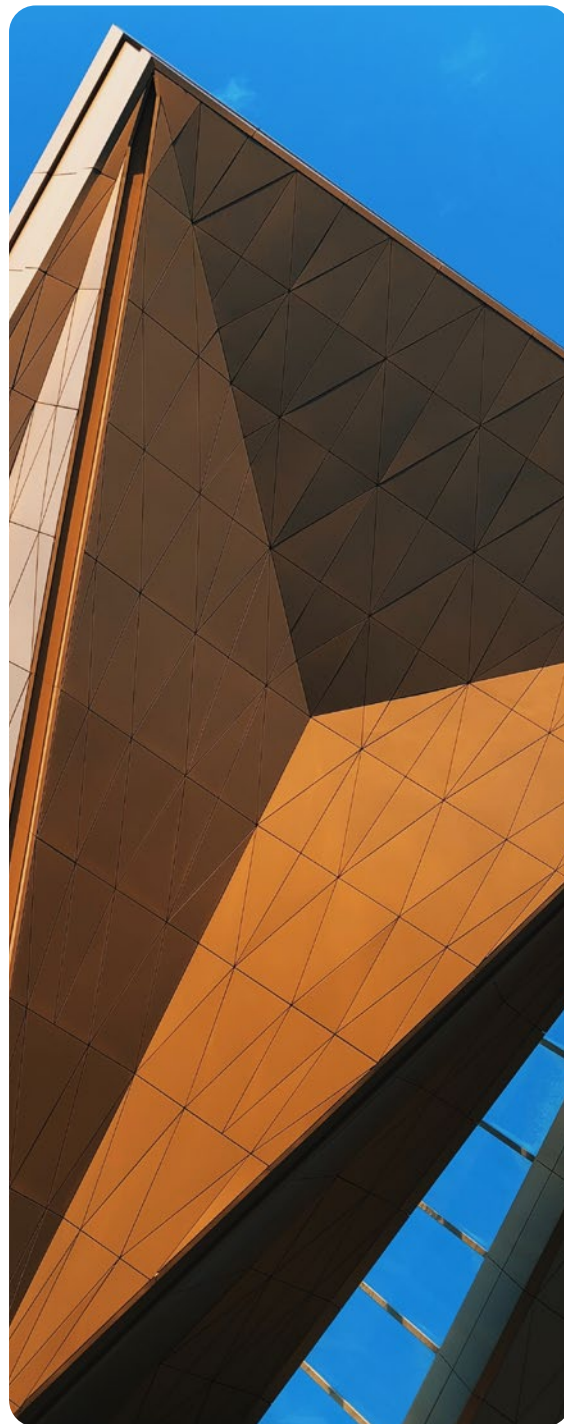
What It Is

Private credit typically refers to a loan made directly between a borrower and a non-bank lender—bypassing banks as a traditional intermediary. Private credit can help boost returns and strengthen diversification by accessing a broader range of assets and industries. It can also generate additional income for a portfolio and can help mitigate downside risk (because the loans may be secured by collateral).

Although private credit can involve varied assets and industries, it generally has several common characteristics. It typically involves floating interest rates above a reference rate—such as the Secured Overnight Financing Rate (SOFR)—buffering against interest rate risk. It also typically has shorter maturities, lowering the risk of prepayments. Private loans also tend to have covenants that offer robust lender protections. In addition, because private loans are not traded publicly, yields are usually higher to compensate for illiquidity.

Private credit offers several potential advantages compared with public debt. For example, private loans often include rigorous lender due diligence and bespoke deal terms, leading to greater control over structuring to protect against default or other adverse scenarios. In addition, the terms in complex, niche industries are often tailored to the borrower's needs, resulting in customized and favorable loan terms.

Private credit investing has expanded considerably in the last decade as stricter regulations have caused banks to tighten lending standards, prompting many companies to migrate away from traditional sources of capital and turn to private lenders for faster, more flexible, tailored solutions. In more recent years, demand for private loan origination has outpaced demand for syndicated bank loans. Moreover, private credit has become more accessible to a broader range of investors, including individual investors. For example, experienced, specialized credit managers may offer listed and non-listed business development companies (BDCs) providing investors with access to senior secured direct lending investments.

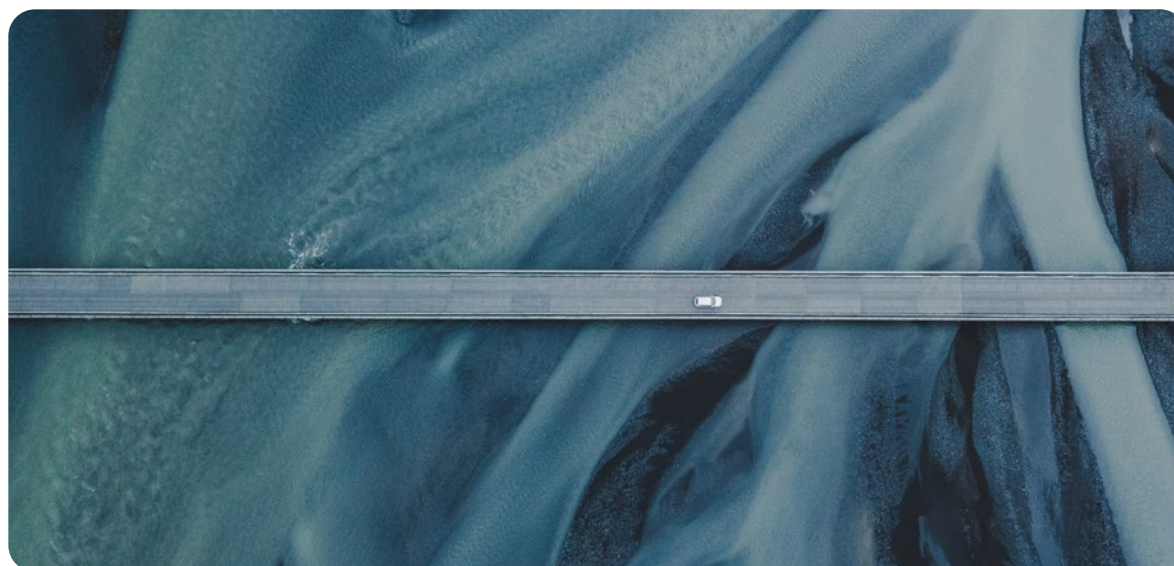


Strategies

As with PE, investors should consider private credit as a supplement to, not a replacement for, public debt. Like PE, private credit comes in a variety of strategies with varying risk profiles (**Figure 17**), although ultimately, a detailed evaluation of the underlying companies helps inform the risk. Combining both public debt and private credit allows for a flexible, “all-weather” approach across private and public markets, including the ability to dynamically allocate in response to evolving market conditions. An unwavering focus on risk management throughout the process is critical to achieving optimal outcomes in all markets.

Figure 17: Private Credit Comes in a Variety of Strategies and Risk Profiles

Direct lending	Mezzanine financing	Asset-backed lending	Opportunistic lending	Distressed debt
Flexible financing made directly to a borrower—either backed by a PE sponsor firm, or to a founder-owned business—to assist growth, acquisition or refinancing needs. Typically senior debt.	Junior debt typically for a performing, PE-sponsor-owned middle-market firm. Sits between senior secured bank debt and equity in the capital structure. Typically for financing recapitalization, leveraged buyouts and acquisitions.	A loan secured or collateralized by the company’s hard assets, equipment, cash or receivables.	Capital for performing companies facing acute financing needs (e.g., a liquidity shortfall or looming debt maturities).	Discounted financing to companies facing financial distress, insolvency, or near bankruptcy.
EXAMPLE Flexible financing for a PE-sponsor-backed acquisition of a personal-care products company.	EXAMPLE Debt for a founder-owned firm expanding its products. Includes interest payments and convertible warrants.	EXAMPLE A bespoke loan for a dental device maker secured by its inventory and manufacturing equipment.	EXAMPLE A “rescue” loan to an energy company with long-term stability that has been temporarily impacted by cyclical economic headwinds.	EXAMPLE Lender helps a fundamentally sound company with a bad balance sheet to emerge from bankruptcy.

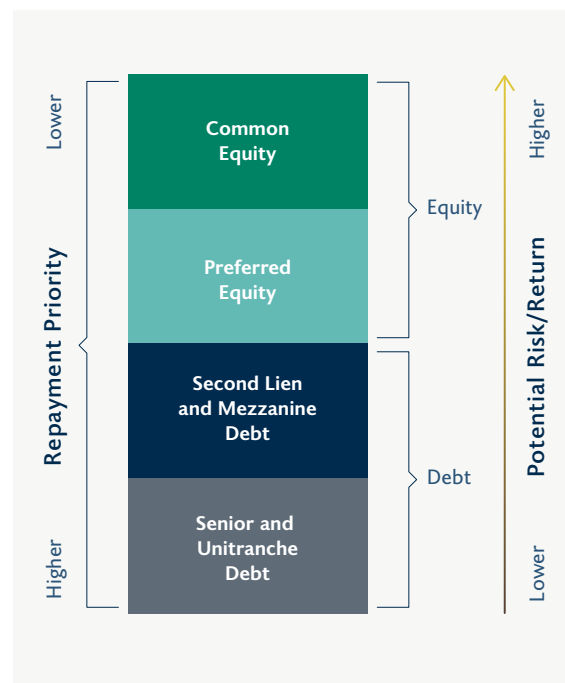


Potential Benefits and Outcomes

Private credit provides a range of benefits that can help strengthen portfolios. These include:

- **Protection from rising rates:** Because private loans typically have floating interest rates, they can potentially offer investors effective inflation protection because as rates move higher, so does the loans' interest rate.
- **Risk Mitigation:** Private loans typically offer strong downside protection because they are typically backed by collateral and are more senior than equity in terms of repayment priority (**Figure 18**), meaning the lender is paid first in the event of a default.
- **Enhanced diversification:** Private loans have a low correlation to public debt, equities and the business cycle, adding diversification, and they typically have lower volatility relative to high-yield bonds and liquid loans.
- **Potentially attractive income:** In addition to high income potential, direct lenders can often secure higher origination fees and coupon rates compared with investors in public debt investments that are more liquid.

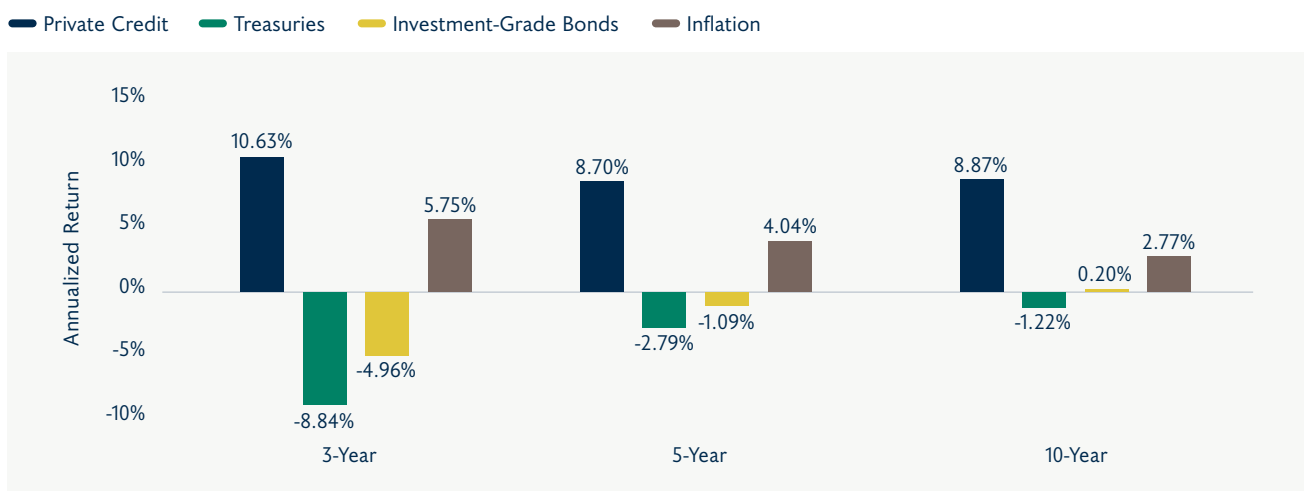
Figure 18: Private Credit Sits Higher in Repayment Priority Than Equity



For illustrative purposes only.

The end result is that private credit has historically produced strong returns compared with public investment-grade bonds (**Figure 19**), while outpacing inflation, offering the prospect of attractive, equity-like returns generally without additional risk, along with the added benefit of a potential inflation hedge.

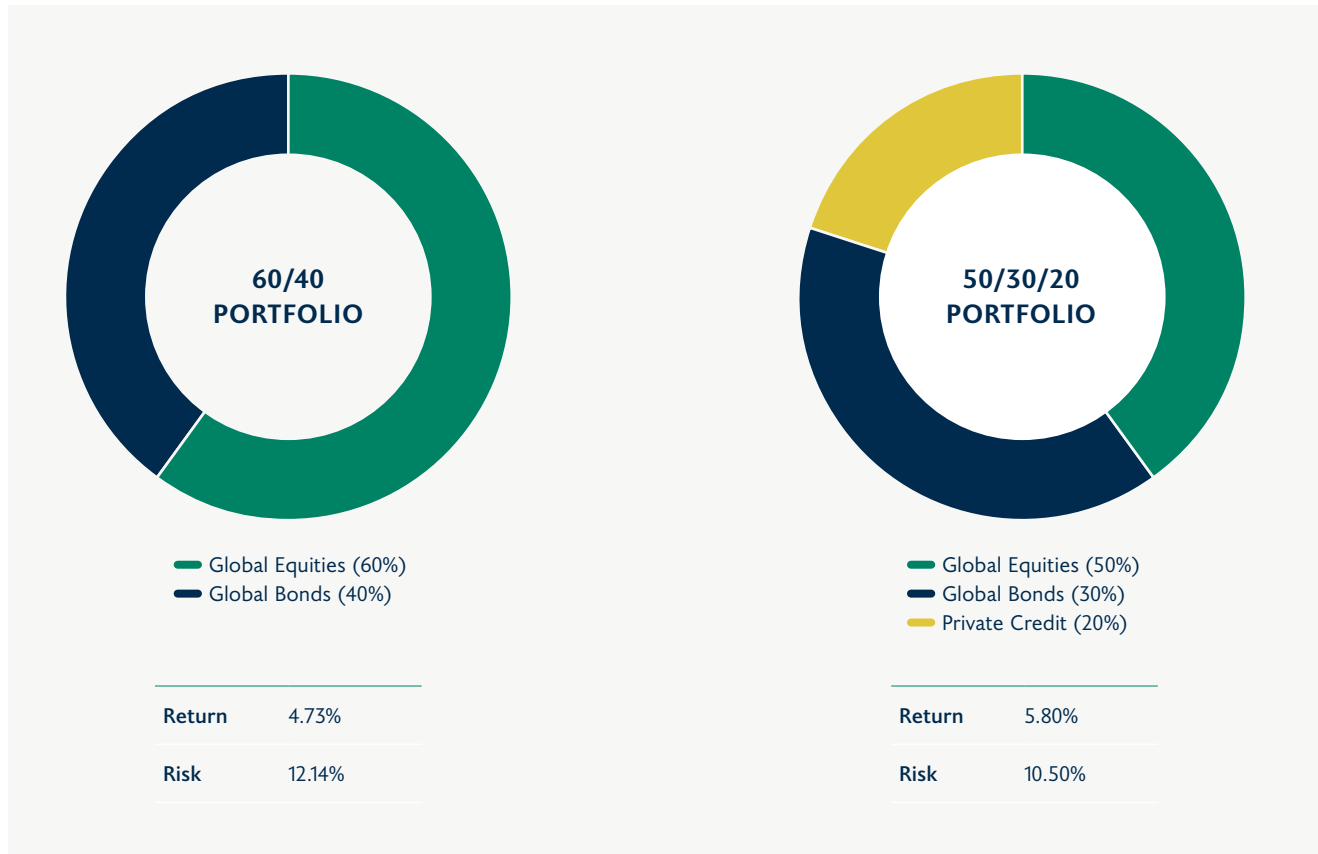
Figure 19: Private Credit Has Offered Equity-Like Gains, Historically Beating Investment-Grade Bonds, Inflation



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Private credit has historically increased portfolio returns and risk-adjusted returns when added to a portfolio of 60% equities and 40% bonds (**Figure 20**). We see many investors sourcing higher-income strategies from both global equity and global bonds, as these strategies tend to provide equity-like returns but with less risk.

Figure 20: Private Credit Has Historically Improved Portfolio Outcomes



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Pulling It All Together: Portfolio Construction With Alternatives

We believe investors should consider adding alternatives to their investment portfolios. The exact combination and amount of each asset class depends on each investor's circumstances, risk tolerance, investment goals and needs. Investors should decide whether they prioritize maximizing long-term returns, generating income, mitigating risks such as inflation and volatility, or a mix of these. When deciding whether to include alternatives in a portfolio, it is important to first consider their main benefits:

Enhanced returns: Throughout this paper we have discussed how individual alternatives can enhance portfolio returns. Together, the picture is even clearer. Our analysis (**Figure 21**) shows that over the past two decades, many alternative solutions have historically provided attractive returns with less risk.

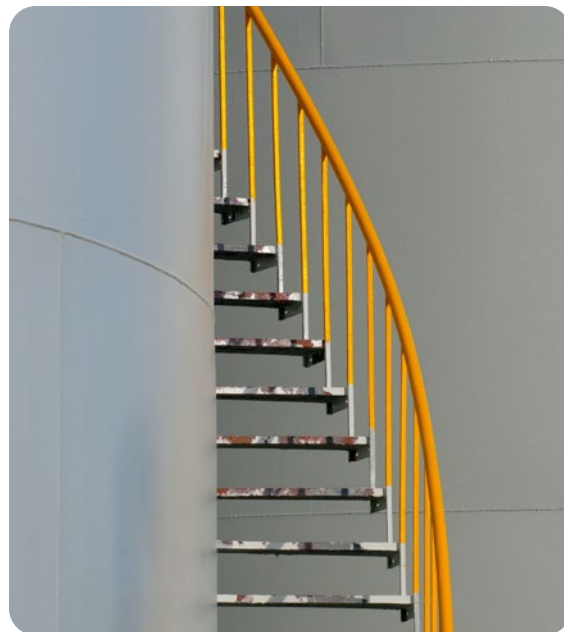
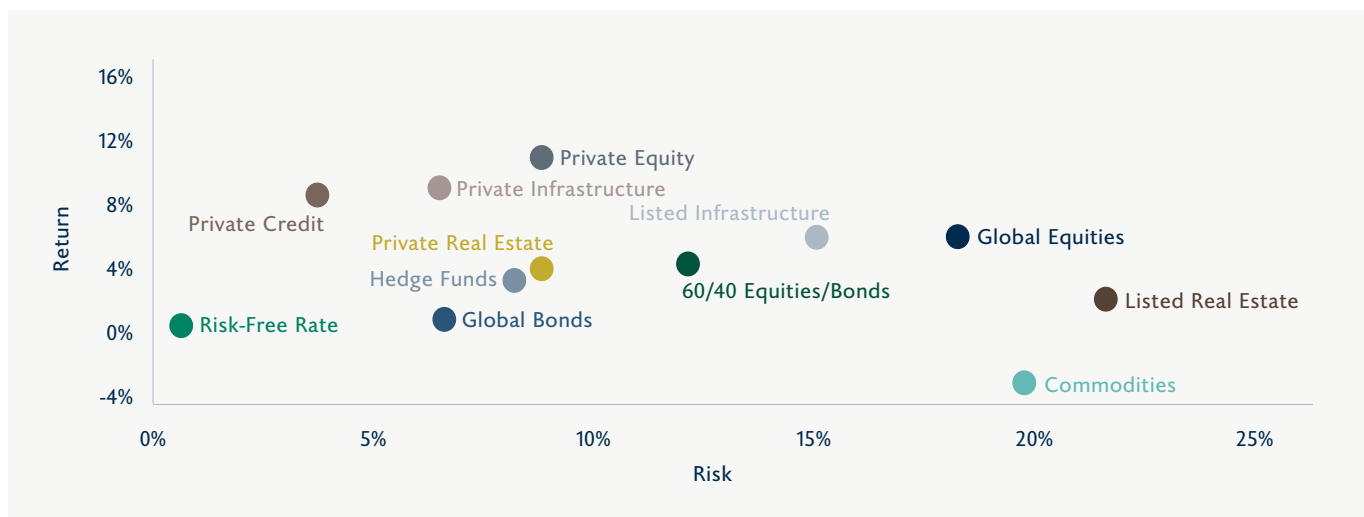


Figure 21: Exposure to Alternatives May Provide Attractive Returns with Less Risk

Risk-return analysis (January 1, 2008 - September 30, 2023)



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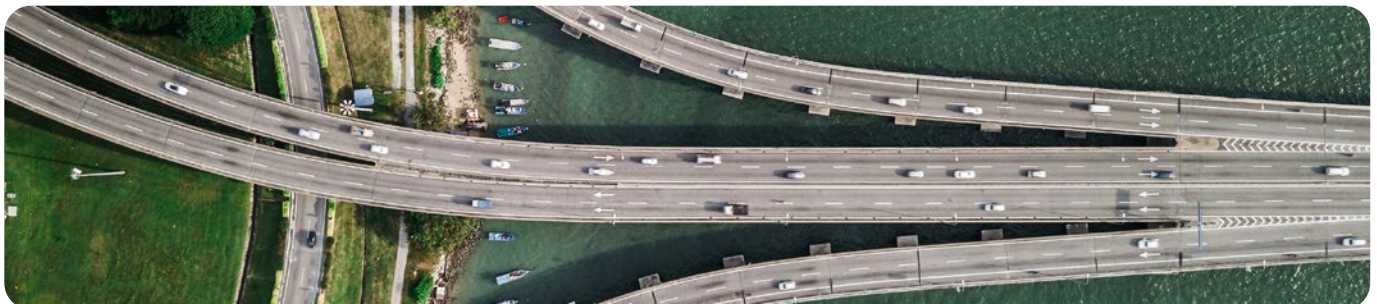
Again, we are not suggesting replacing traditional asset classes with alternatives, but supplementing them to achieve the potential benefits alternatives offer: diversification, attractive returns, income generation, hedge against inflation, and risk mitigation. Furthermore, the pattern of returns has varied significantly (**Figure 22**), building a case for a diversified allocation across global equities, global bonds and alternatives.

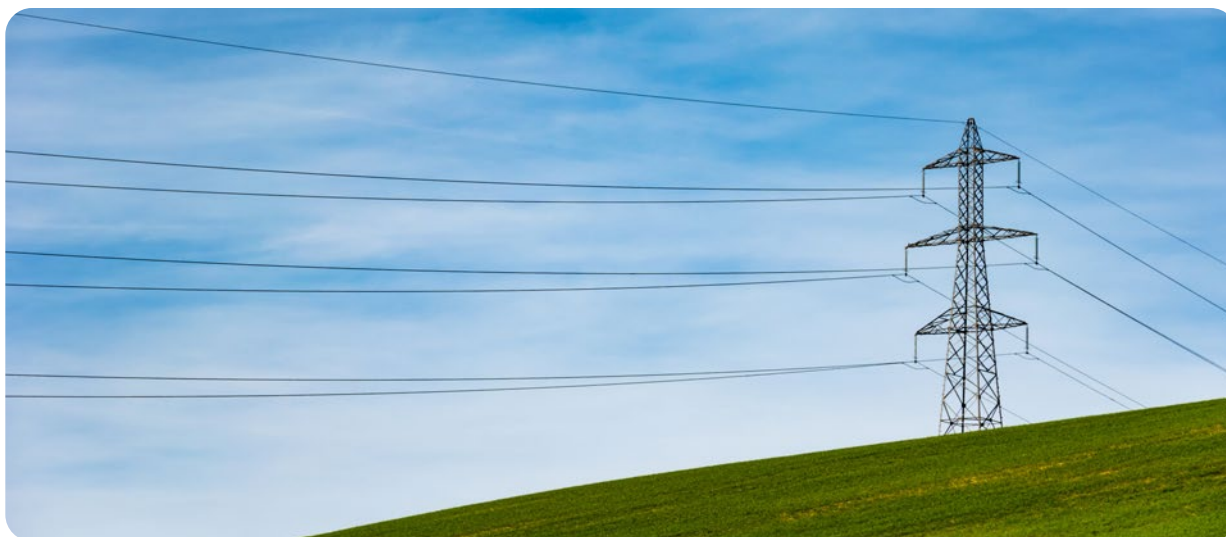
Figure 22: Dispersion of Returns Helps to Make the Case for a Diverse Allocation

Calendar year total returns (%)

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Global Equities	21.40	38.26	20.40	13.75	28.65	27.37	16.34	11.23	11.76	23.07	10.92	28.40	25.62	38.13	15.89
Listed Real Estate	4.79	34.24	18.12	10.36	16.54	19.60	15.89	10.63	11.24	19.32	10.08	26.14	16.50	27.21	7.36
Global Bonds	-6.50	30.79	15.79	9.75	16.01	15.89	13.51	10.46	10.57	19.17	8.07	23.06	9.20	26.58	6.30
Private Equity	-23.30	13.18	12.46	8.49	14.03	14.29	12.13	5.54	8.80	14.25	6.76	15.15	5.46	22.35	-1.71
Private Infrastructure	-29.90	7.95	12.34	8.16	13.01	12.75	10.64	0.05	8.54	11.42	-1.20	10.61	4.74	19.83	-4.15
Private Real Estate	-33.65	6.93	11.02	5.64	8.69	12.68	9.57	-0.32	8.15	10.09	-3.18	9.00	2.01	15.71	-16.25
Private Credit	-40.33	-16.31	6.63	-5.02	8.45	4.39	5.50	-3.15	4.99	8.63	-4.74	8.67	-3.34	12.79	-17.73
Listed Infrastructure	-47.72	-22.54	5.54	-5.82	4.32	-2.60	0.59	-8.05	2.09	7.39	-8.20	6.84	-8.18	-4.71	-24.41

Past performance is no guarantee of future results. For illustrative purposes only. Information does not represent returns of a fund. An investor cannot invest in an index. Global Equities represented by the MSCI World Index, Global Bonds by the Bloomberg Global Aggregate Bond Index, Listed Real Estate by the FTSE EPRA Nareit Developed Index, and Listed Infrastructure by the FTSE Global Core Infrastructure 50/50 Index after December 31, 2014; data from July 30, 2008 through December 31, 2014 represented by the Dow Jones Global Infrastructure Index. Private Equity represented by the Preqin Private Equity Index, Private Credit by the Cliffwater Direct Lending Index, Private Infrastructure by the Preqin Infrastructure Index, and Private Real Estate by the Preqin Real Estate Index. Please see disclosures for additional information. Source: Bloomberg, Preqin.

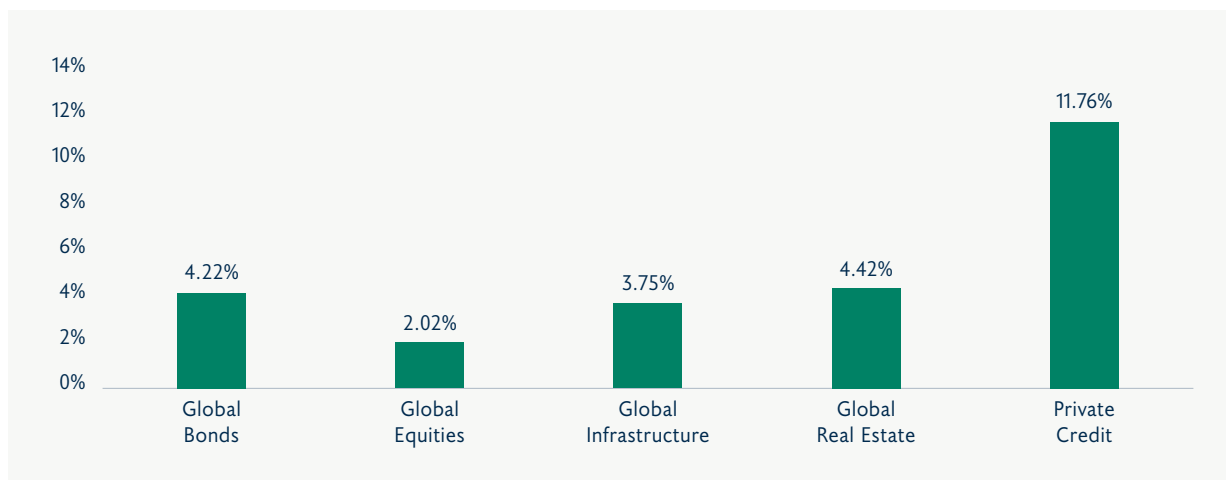




Income Generation: Real estate, infrastructure and private credit each generate income that can help meet cash needs or grow portfolios over the long term. Real estate and infrastructure produce consistent cash flows, aiming to generate steady income for investors. In addition, there are a number of tax advantages⁷ of income from real estate and infrastructure investments for some investors. At the same time, the average current yield on private credit is outpacing traditional and alternative investments (**Figure 23**).

Figure 23: Private Credit Current Yields Have Been Very Attractive

Current distribution yield

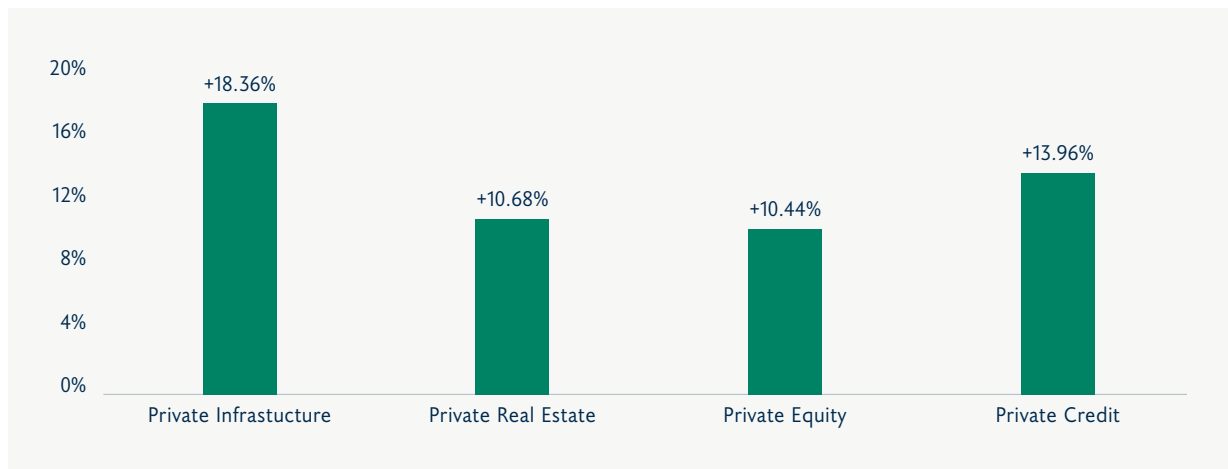


Past performance does not guarantee future results. Diversification does not guarantee a profit or protect against loss. Information does not represent returns of a fund. An investor cannot invest in an index. Global Bonds represented by the Bloomberg Global Aggregate Bond Index, Global Equities by the MSCI World Index, Listed Real Estate by the FTSE EPRA Nareit Developed Index, Listed Infrastructure by the FTSE Global Core Infrastructure 50/50 Index, and Private Credit by the Cliffwater Direct Lending Index. Global Real Estate represented by FTSE EPRA Nareit Developed Index, Global Infrastructure represented by FTSE Global Core Infrastructure 50/50 Index. Please see disclosures for additional information. Source: Bloomberg, Morningstar, Preqin, Brookfield. As of September 30, 2023.

Risk Mitigation. Many investors assume alternatives are inherently risky; however, real estate, infrastructure, private equity and private credit have each produced strong returns compared with a 60/40 portfolio with less risk. Moreover, during periods of global equity volatility, alternatives can bring stability to portfolios—during the 10 worst quarters for global equity markets, the four alternatives discussed in this paper outperformed global equities (**Figure 24**).

Figure 24: Alternatives Have Outpaced Global Equities During Worst Quarters for Stock Markets

Average quarterly outperformance during worst 10 quarters for global equities
(January 1, 2008 - September 30, 2023)



Past performance is not indicative of future results. For illustrative purposes only. Information does not represent returns of the Fund. An investor cannot invest in an index. Private Equity represented by the Preqin Private Equity Index, Private Credit by the Cliffwater Direct Lending Index, Private Infrastructure by the Preqin Infrastructure Index, and Private Real Estate by the Preqin Real Estate Index. Please see disclosures for additional information. Source: Bloomberg, Preqin.



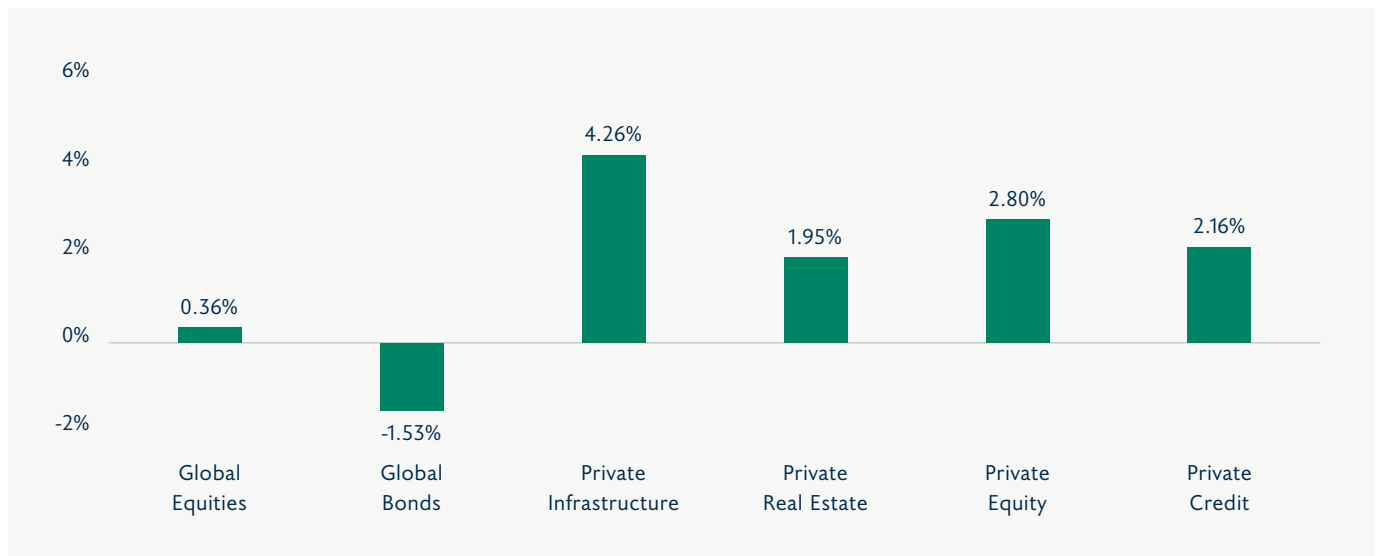
Alternatives can further mitigate risk by providing an effective downside/upside capture of equity market returns. In other words, these assets tend to decline less when equity markets are down, but still enjoy much of the upside when stock markets are up. This underscores our assertion that alternatives should be used to augment traditional blends of global stocks and bonds, not as a replacement.

In addition, alternatives serve as a potential inflation hedge. For example, many private credit loans are floating-rate, so the income they produce rises with inflation. Real estate values typically move higher with rising inflation because replacement costs for new construction increase, which translates to less available properties and heightened real estate demand. The importance of these characteristics was evident when inflation spiked after the pandemic and then fell. These alternatives can help hedge against even relatively minor increases in inflation that can eat away at a portfolio's value. Indeed, private infrastructure and private real estate have both historically outperformed global equities and bonds when inflation was above average (**Figure 25**).



Figure 25: Alternatives Have Outperformed Amid Inflation

Average total returns during periods of above-average inflation (January 1, 2008 - September 30, 2023)



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Diversification. One of the main benefits of alternatives is diversification. Perhaps one of the most important goals, diversification helps investors achieve long-term goals by mitigating risks while being able to stay invested. With correlations rising between global stocks and global bonds, achieving diversification is challenging. As shown in **Figure 26**, alternatives exhibit relatively low correlations with other asset classes, enhancing diversification.

Figure 26: Alternatives Exhibit Relatively Low Correlations to Other Asset Classes

	Global Equities	Global Bonds	Listed Real Estate	Listed Infrastructure	Private Equity	Private Credit	Private Real Estate	Private Infrastructure
Global Equities	1							
Global Bonds	0.35	1						
Listed Real Estate	0.88	0.41	1					
Listed Infrastructure	0.86	0.41	0.89	1				
Private Equity	0.78	0.13	0.70	0.69	1			
Private Credit	0.70	-0.02	0.66	0.69	0.79	1		
Private Real Estate	0.38	-0.15	0.37	0.40	0.70	0.60	1	
Private Infrastructure	0.04	-0.09	0.08	0.11	0.26	0.12	0.39	1

Past performance is not indicative of future results. Diversification does not guarantee a profit or protect against loss. For illustrative purposes only. Information does not represent returns of a fund. An investor cannot invest in an index. For the period January 1, 2008 through September 30, 2023. Global Equities represented by MSCI World Index, Global Bonds by Bloomberg Global Aggregate Bond Index, Listed Real Estate by FTSE EPRA Nareit Developed Index, and Listed Infrastructure by the FTSE Global Core Infrastructure 50/50 Index after December 31, 2014; data from July 30, 2008 through December 31, 2014 represented by the Dow Jones Global Infrastructure Index. Private Equity represented by the Preqin Private Equity Index, Private Credit by the Cliffwater Direct Lending Index, Private Infrastructure by the Preqin Infrastructure Index, and Private Real Estate by the Preqin Real Estate Index. Please see disclosures for additional information. Source: Bloomberg; Preqin.

The four alternatives discussed in this paper do not represent the entire universe of alternative asset classes or strategies. There are many others, each with their own benefits, but those discussed in this paper represent some of the key alternatives individual investors may want to consider (**Figure 27**).

Figure 27: Four Alternatives Categories and Potential Benefits

	Real Estate	Infrastructure	Private Equity	Private Credit
Diversification	Higher potential	Higher potential	Higher potential	Higher potential
Inflation Hedge	Higher potential	Higher potential	Higher potential	Higher potential
Risk Mitigation	Higher potential	Higher potential	Higher potential	Higher potential
Income Generation	Higher potential	Higher potential	Higher potential	Higher potential
Return Enhancement	Higher potential	Higher potential	Higher potential	Higher potential

For illustrative purposes only.

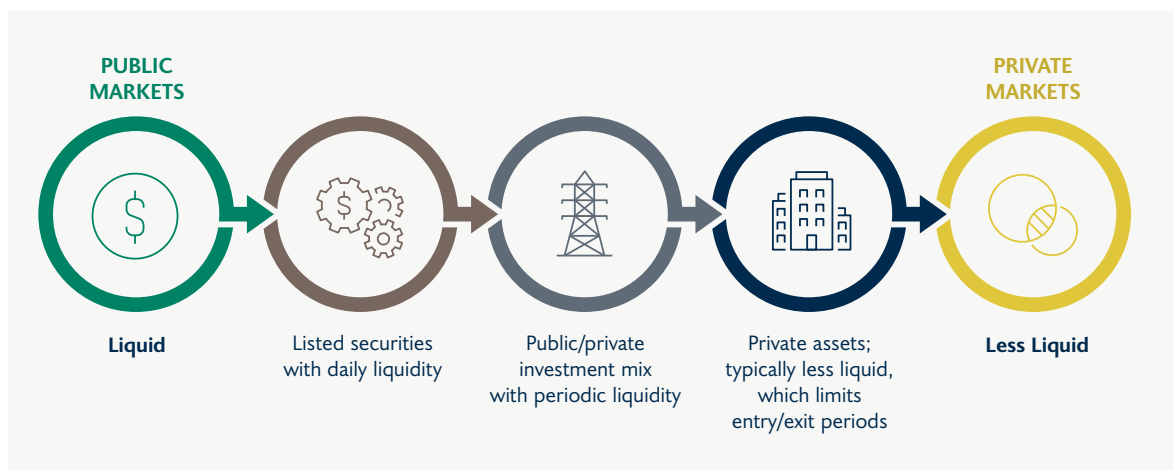
Conclusion: Solutions for Client Needs

Managing individual investor portfolios can be challenging, and the decision about whether to include alternatives can be daunting. Investors should factor in a range of considerations for how to best add these investments to their portfolios. Risk appetite is only one; others include an investor's eligibility based on income and/or net worth, time horizon, near-term income requirements, tax profile and projected liquidity needs over time. With the addition of alternatives, investors can now draw investments from both the public and private markets, to better tailor portfolios to their specific needs and objectives with greater granularity.

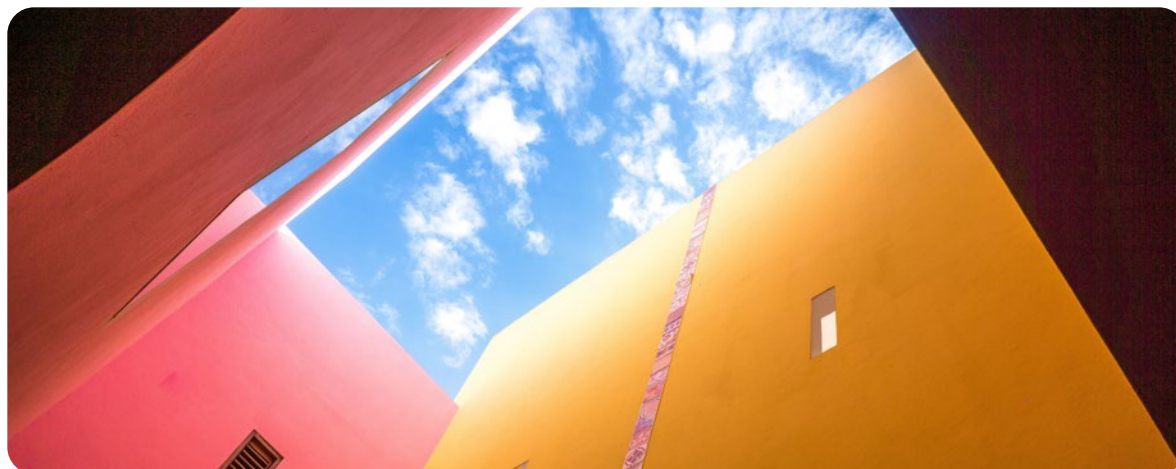
The good news is that individual investors have more access to alternatives than ever before, due to regulatory changes and product innovation.

Figure 28: Managers Now Offer a Spectrum of Solutions to Meet Client Needs

A range of offerings—public and private global equity and global debt—can help individuals meet varying objectives



Source: Brookfield. For illustrative purposes only.



Endnotes

- ¹ Source: Bain & Company. As of February 2023. Compound annual growth rate 2022-2032.
- ² Source: Study of Allocations to Alternative Investments by Institutions and Financial Advisors; Fidelity Investments. As of December 31, 2022.
- ³ Source: Study of Allocations to Alternative Investments by Institutions and Financial Advisors; Fidelity Investments. As of December 31, 2022.
- ⁴ Diversification does not guarantee a profit or protect against loss.
- ⁵ Source: McKinsey & Company. As of March 31, 2023.
- ⁶ Source: Capital IQ. As of December 31, 2022.
- ⁷ Please consult a tax professional for tax advice.

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All investing involves risk. The value of an investment will fluctuate over time, and an investor may gain or lose money, or the entire investment. Past performance is no guarantee of future results.

Alternative investments are complex, speculative investment vehicles and are not suitable for all investors. An investment in an alternative investment entails a high degree of risk and no assurance can be given that any alternative investment fund's investment objectives will be achieved or that investors will receive a return of their capital. Investors could lose all or a substantial amount of their investment.

All real estate investments, ranging from equity investments to debt investments, are subject to some degree of risk.

Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction programs, high leverage, costs associated with environmental and other regulations, the effects of Infrastructure companies may be subject to a variety of factors that may adversely affect their business or operations, including high interest costs in connection with capital construction

programs, high leverage, costs associated with environmental and other regulations, the effects of Private Equity Investments will be subject to risks associated with the general economic climate, geographic or market concentration, government regulations and fluctuations in interest rates.

As an asset class, private credit is comprised of 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 to 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.

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The Bloomberg Commodity Index is a broadly diversified index that tracks the commodities markets through commodity futures contracts.

The Cliffwater Direct Lending Index measures the unlevered, gross-of-fees 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.

The Consumer Price Index (CPI) is a measure of the average change in prices over time in a fixed market basket of goods and services.

The Dow Jones Brookfield Global Infrastructure Index is calculated and maintained by S&P Dow Jones Indices and comprises infrastructure companies with at least 70% of their annual cash flows derived from owning and operating infrastructure assets, excluding master limited partnerships (or MLPs). Brookfield has no direct role in the day-to-day management of any Brookfield-branded indexes.

The 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.

The FTSE NAREIT All Equity REITs Index is a free-float-adjusted, market-capitalization-weighted index of U.S. equity REITs. Constituents of the index include all tax-qualified REITs with more than 50% of total assets in qualifying real estate assets other than mortgages secured by real property.

The HFRI Fund Weighted Composite Index is designed to be representative of the overall composition of the hedge fund universe. It comprises all eligible hedge fund strategies; including but not limited to convertible arbitrage, distressed securities, equity hedge, equity market-neutral, event-driven, macro, merger arbitrage and relative value arbitrage. The strategies are asset-weighted based on the distribution of assets in the hedge fund industry.

The ICE BofA U.S. High Yield Index tracks the performance of U.S. dollar-denominated below-investment-grade corporate debt publicly issued in the U.S. domestic market.

The ICE BofA 3-Month U.S. Treasury Bill Index is an unmanaged index representing monthly return equivalents of yield averages of the last 3-month Treasury Bill issues.

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

The Preqin Private Credit Index captures in an index the return earned by investors on average in their private credit portfolios, based on the actual amount of money invested in private capital partnerships. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

The 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. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

The Preqin Infrastructure Index captures the average returns earned by investors in their infrastructure portfolios, based on the actual amount of money invested. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

The Preqin Private 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. Historical data points are not recalculated as time passes, except for the latest two quarters available, which are preliminary. The preliminary quarters are finalized at a three-quarter lag coinciding with the full constituency for the as-at date being met. The universe of funds for each quarterly point in the index may change over time depending on data availability.

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