BROWN SHIPLEY
A QUINTET PRIVATE BANK

NEW HORIZONS

PRIVATE MARKETS & HEDGE FUNDS

2025 ALTERNATIVES OUTLOOK

Executive Summary

As we enter 2025, alternative investments face a transformative landscape shaped by evolving monetary policy, technological innovation, shifting investor preferences and democratised access for retail investors.

Private Markets have a role to play in strategic asset allocation with a focus on robust portfolio construction tailored to client preferences and outcomes. We recommend a target allocation of 15% in balanced risk profiles.

Private Equity experienced a recovery in 2024 with increased deal activity. We are positive for 2025 with favourable conditions, such as lower interest rates and narrower credit spreads. We expect more exits to occur because price expectations between buyers and sellers are becoming more aligned.

Private Credit emerges as a dominant force, with projected asset-under-management growth of 12-15% driven by bank retrenchment and attractive yields. High borrowing demand and reduced traditional liquidity have enhanced private lenders' terms and prioritised protection.

Private Infrastructure investments gain momentum in 2025 from global decarbonisation initiatives and AI-driven modernisation needs. The world will face a large funding gap for infrastructure leading to opportunities for private capital to step in and fill the gap.

Real Estate is more nuanced into 2025 with some opportunities emerging as office markets undergo structural transformation. Long term, lower rates should support some signs of improvement in the sector.

Hedge Funds have shown a strong performance in 2024 and are expected to continue to play their defensive role in portfolios for 2025. We are holding a portfolio which will act as a diversifier should we encounter market volatility over the next year in our traditional portfolios.

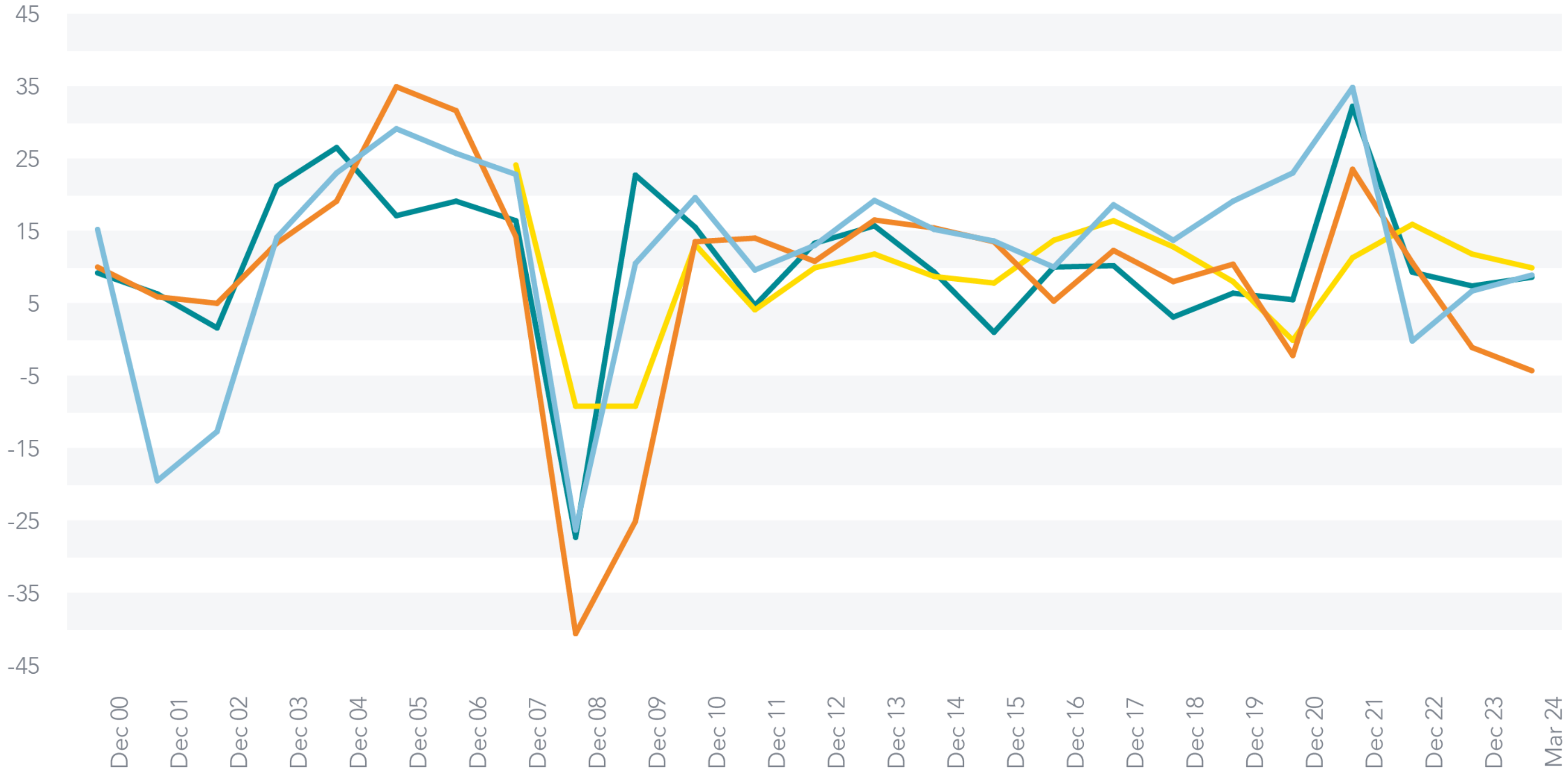
For information purposes only. Alternative investments are illiquid, high risk and not suitable for all investors.


2025 OUTLOOK
WHERE WE'RE HEADING

2024: resilience and recovery

Hedge Funds navigated 2024's volatile markets with relative agility, while private markets experienced a slowdown in deal activity, accompanied by a decline in valuations, which we anticipate to recover in 2025.

Rolling One-Year Horizon IRRs (%)



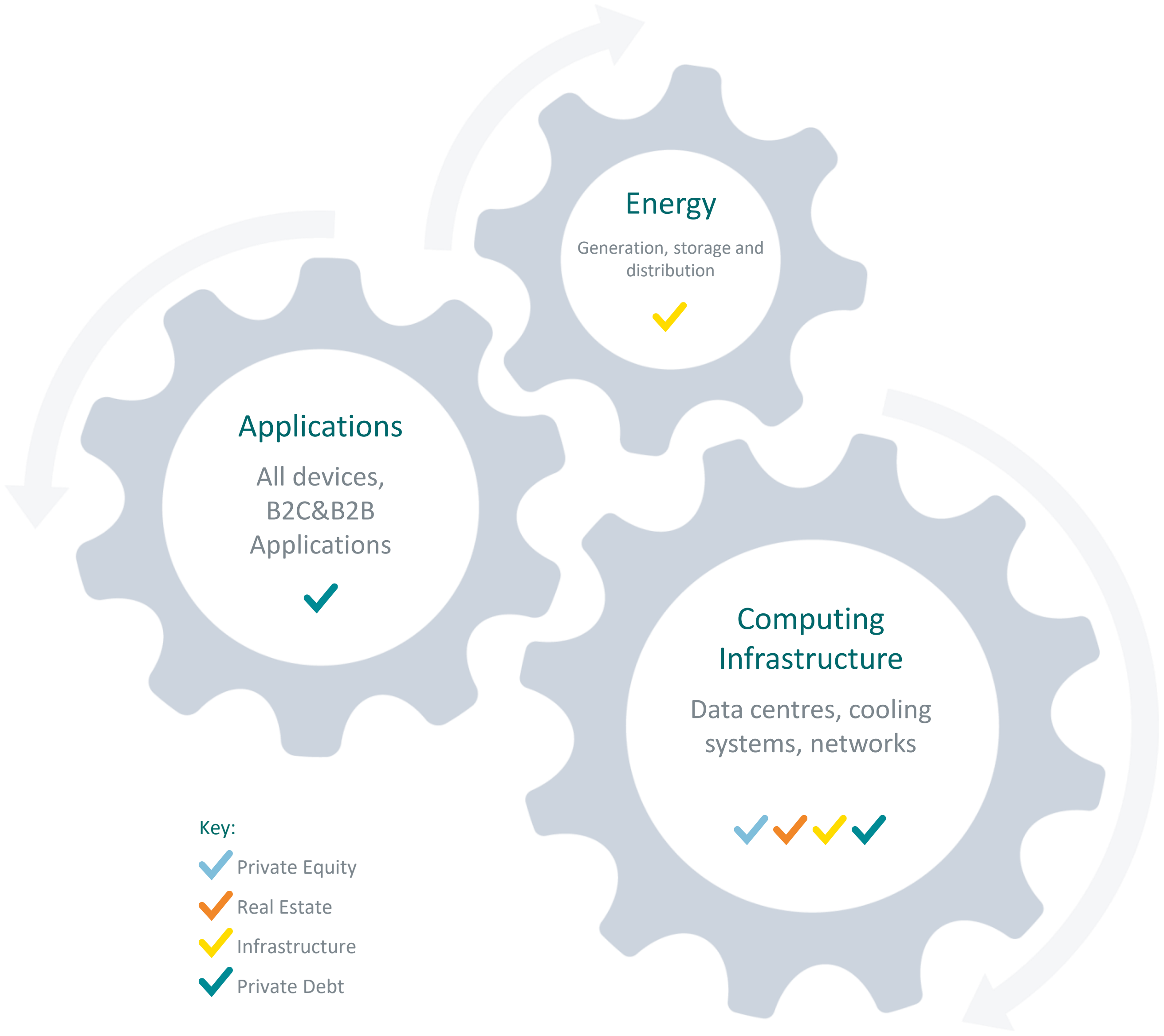
Key:

- Private Equity
- Real Estate
- Infrastructure
- Private Debt

Source: Preqin Pro, 11.2024. Past performance is not a reliable indicator of future returns.
IRR = Internal rate of return

2025 & beyond: financing the future

In the coming years we expect Alternatives to be a vital source of funding for large-scale economic changes, such as building infrastructure and advancing AI-driven technologies.



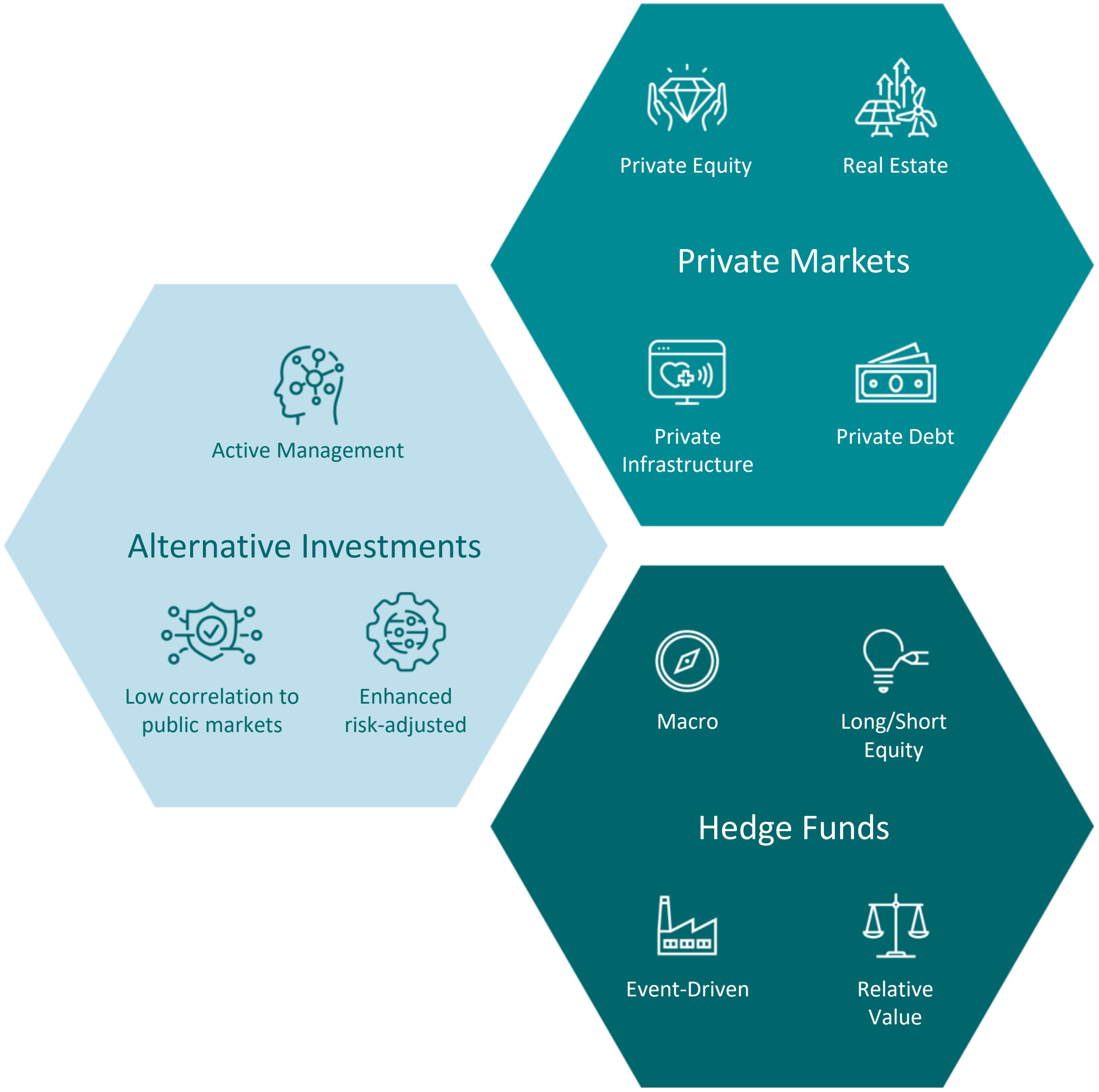
Source: Blackrock Private markets outlook 2025. For illustrative purposes only. The set of examples for each category is not comprehensive.

INTRODUCTION

Understanding Alternative Investments

Alternative investments refer to investment options **beyond traditional equities and bonds**.

The alternative investment space has rapidly developed in recent years, with an annual growth rate of roughly 10%. One reason was the search for yield in the low-yield environment, prior to the pandemic related inflation spike and rate hikes, and the search for uncorrelated exposures relative to traditional stocks and bonds.

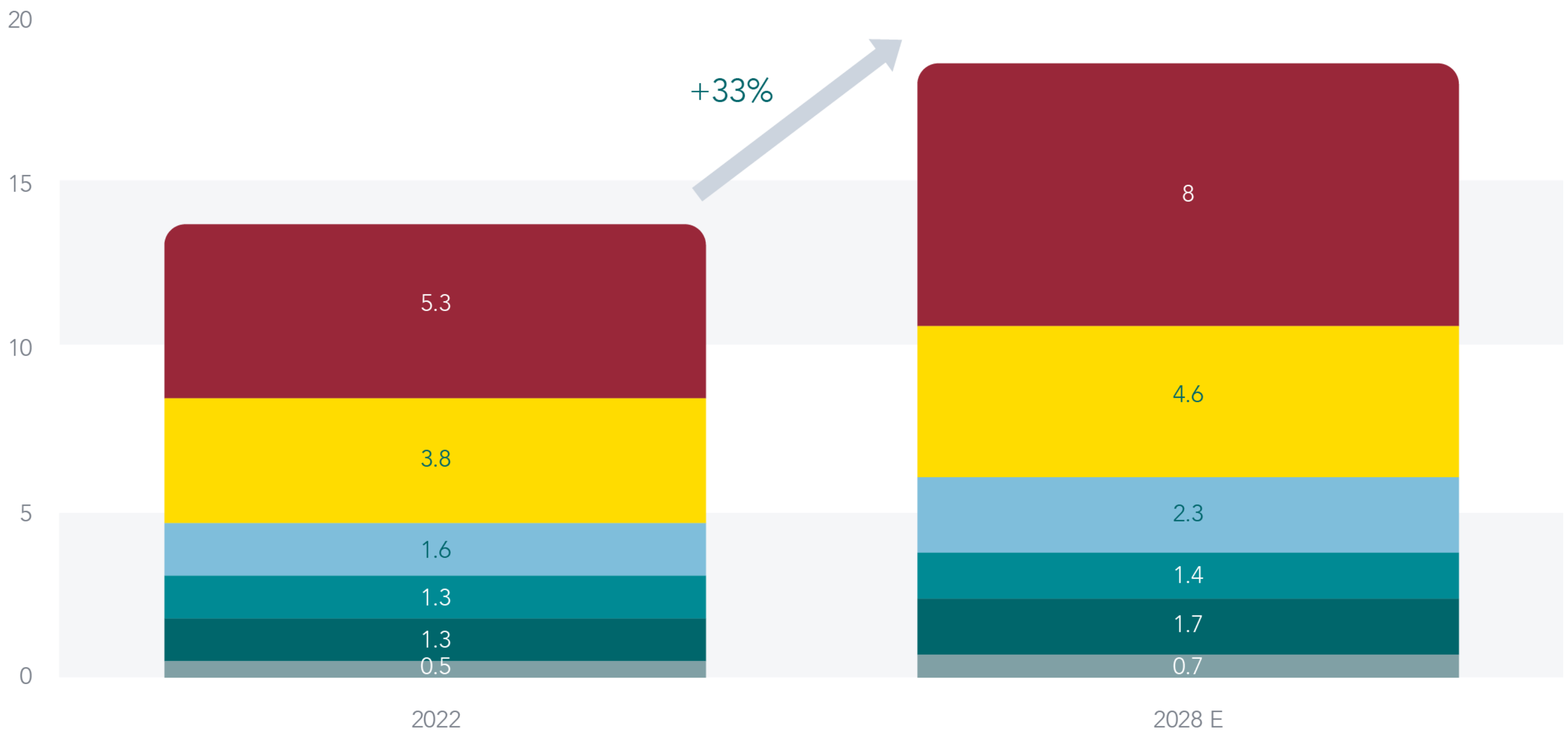


An expanding sector

Twenty years ago, alternative investments accounted for $4.8 trillion, representing 6% of global assets under management (AUM), with Hedge Funds making up the majority of that allocation.

Today, alternatives have grown significantly, reaching $22 trillion in AUM, or 15% of the global total, with Private Equity being the largest asset class. AUM of alternatives are expected to grow to $29 trillion by 2029.

Base-case AUM ($Tr) forecast by asset class



Key:

Secondaries
Real Assets
Real Estate
Private Debt
Venture Capital
Private Equity

Source: In-house research, Pitchbook Analyst Note, May 2024. Past performance is not a reliable indicator of future returns.

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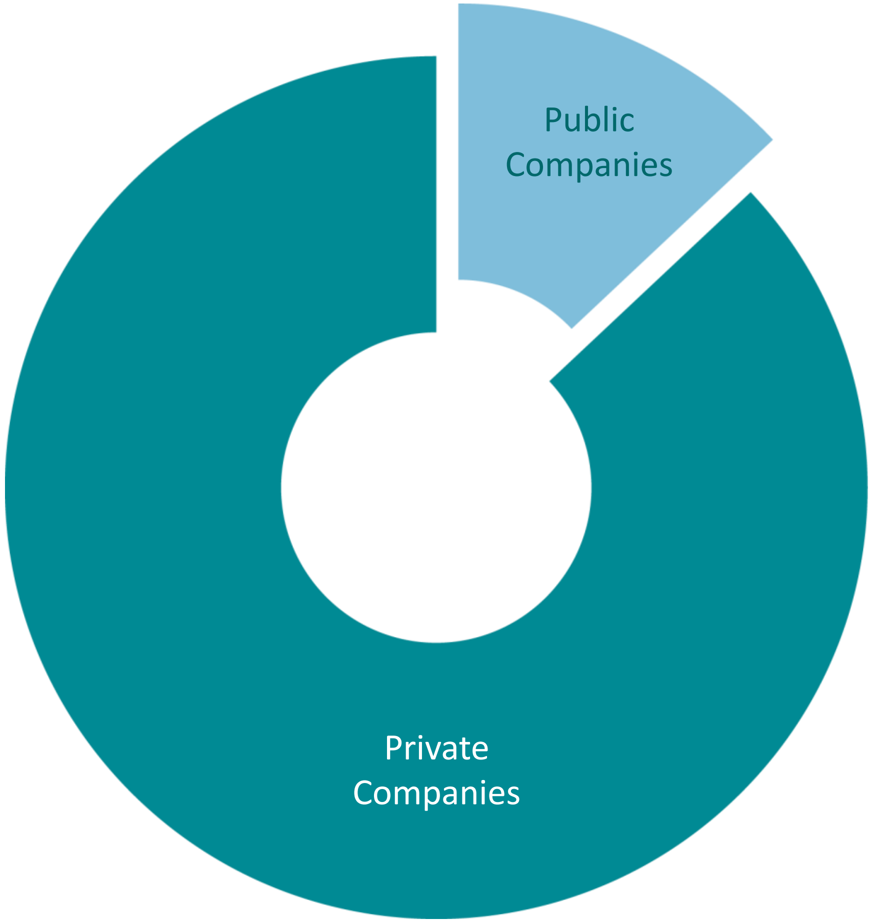
PRIVATE MARKETS

Private Markets: seize the opportunity

Today, private markets offer a greater opportunity set. Of all the companies with over US$100 million in revenues, 87% of them are private, and they are typically remaining private for longer periods.

Besides, private markets tend to have lower correlations with traditional public markets, potentially reducing overall risk.

Share of public and private companies in the US with revenue greater than $100 million



Source: In-house research, Apollo, 2024. For illustrative purposes only.

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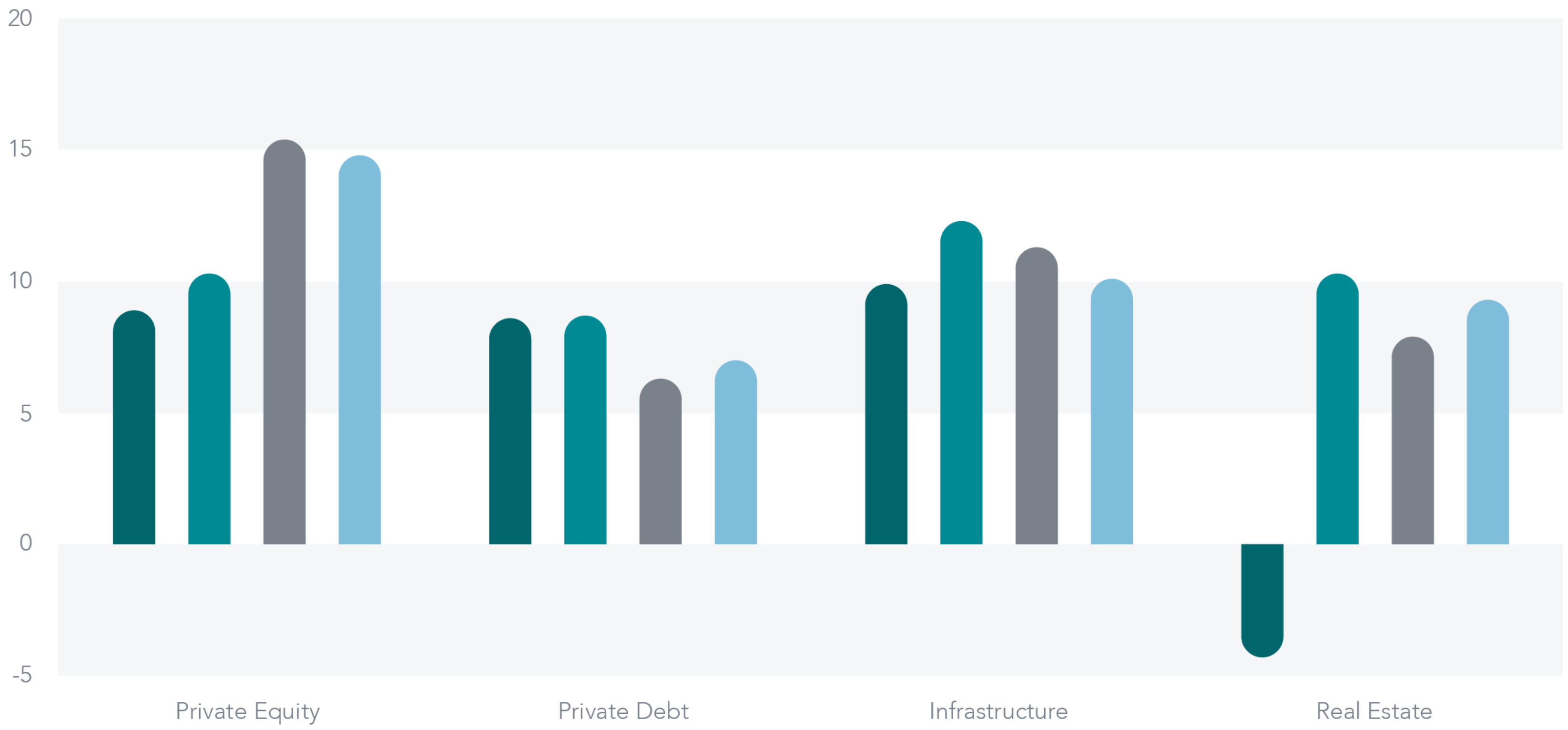
Private Markets are a long-term commitment

Based on historical returns, Private Markets remain attractive over the long run, partly due to their ability to unlock value through long-term commitment.

Horizon IRRs (in %)



Key:

1 year to Mar 2024
5 years to Mar 2024
3 years to Mar 2024
10 years to Mar 2024

Source: Preqin, 11.2024. Past performance is not a reliable indicator of future returns.
IRR = Internal rate of return

Prioritising experience and financial prudence

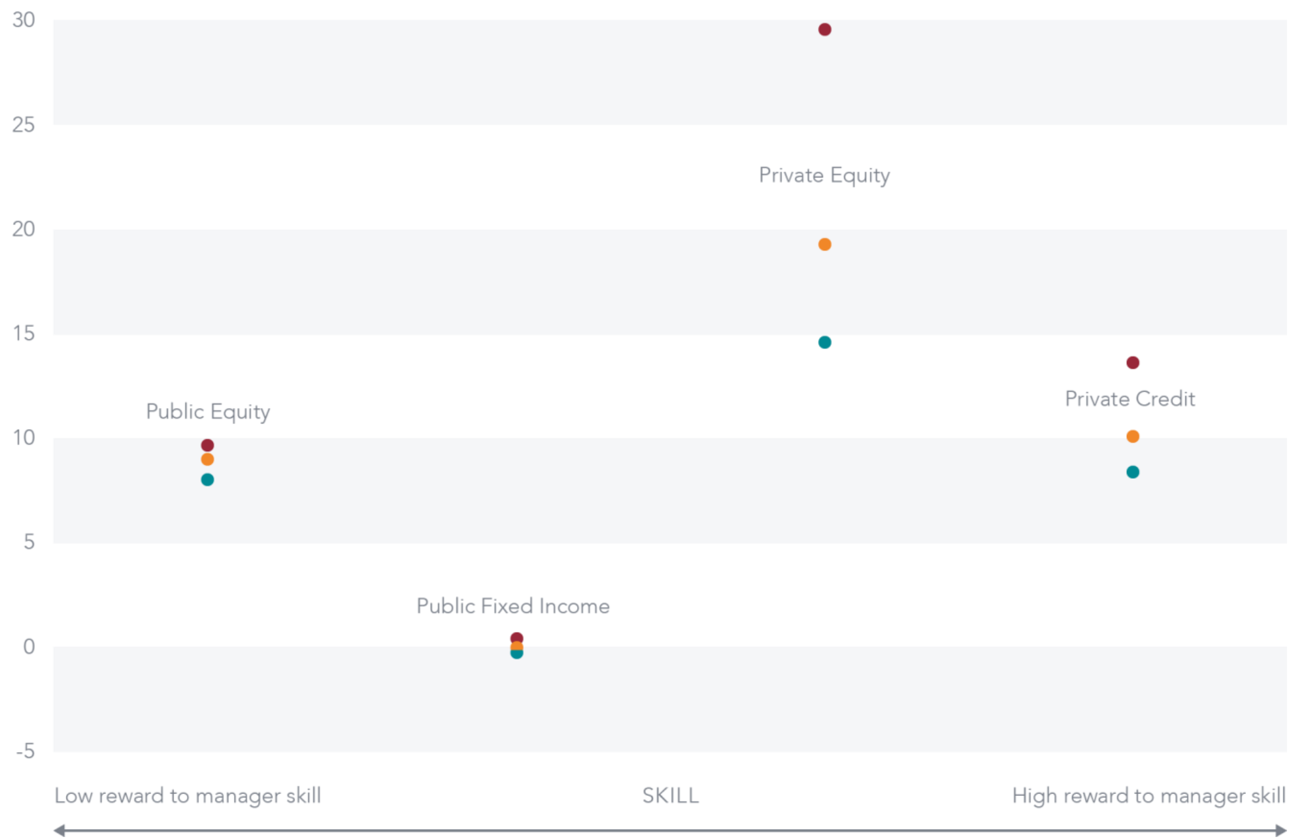
Our strategy:

- Select experienced fund managers with a proven track record of delivering strong results.
- We believe opportunities remain in higher-quality and lower leveraged deals.
- Market entry should not be timed but rather be seen as long-term strategic allocation.

Key:

Top quartile Median Bottom Quartile

The Range of Outcomes is Much Wider Across Private Managers than for Public Managers



Source: Blackrock, data of 04.2024. Past performance is not a reliable indicator of future returns.

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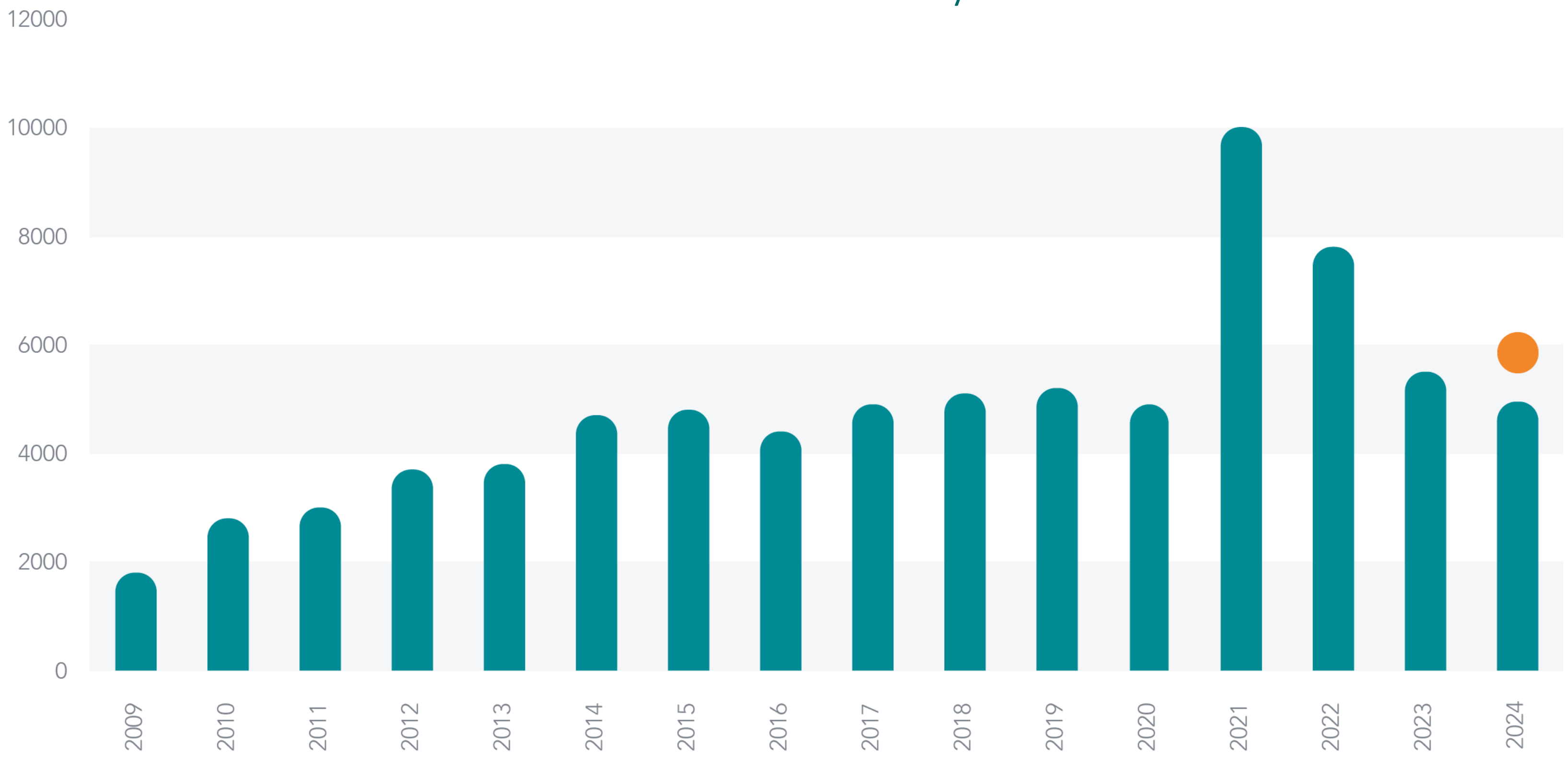
BREAKDOWN BY ASSET CLASS

Private Equity: recovering from a downturn

2024 dealmaking has increased by 13% compared to the same period in 2023.

A supportive regulatory environment and anticipated uptick in mergers and acquisitions (M&A) activity has led to an upward revision in US buyout return expectations and increased overall optimism about 2025 deal activity.

US PE Deal Activity



Key:

Estimated deal count YE

Source: Albourne Q4 2024. Past performance is not a reliable indicator of future returns.

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Private Equity: long-term value

Our strategy: we maintain a positive long-term view on private equity and see conditions improving and liquidity returning in 2025.

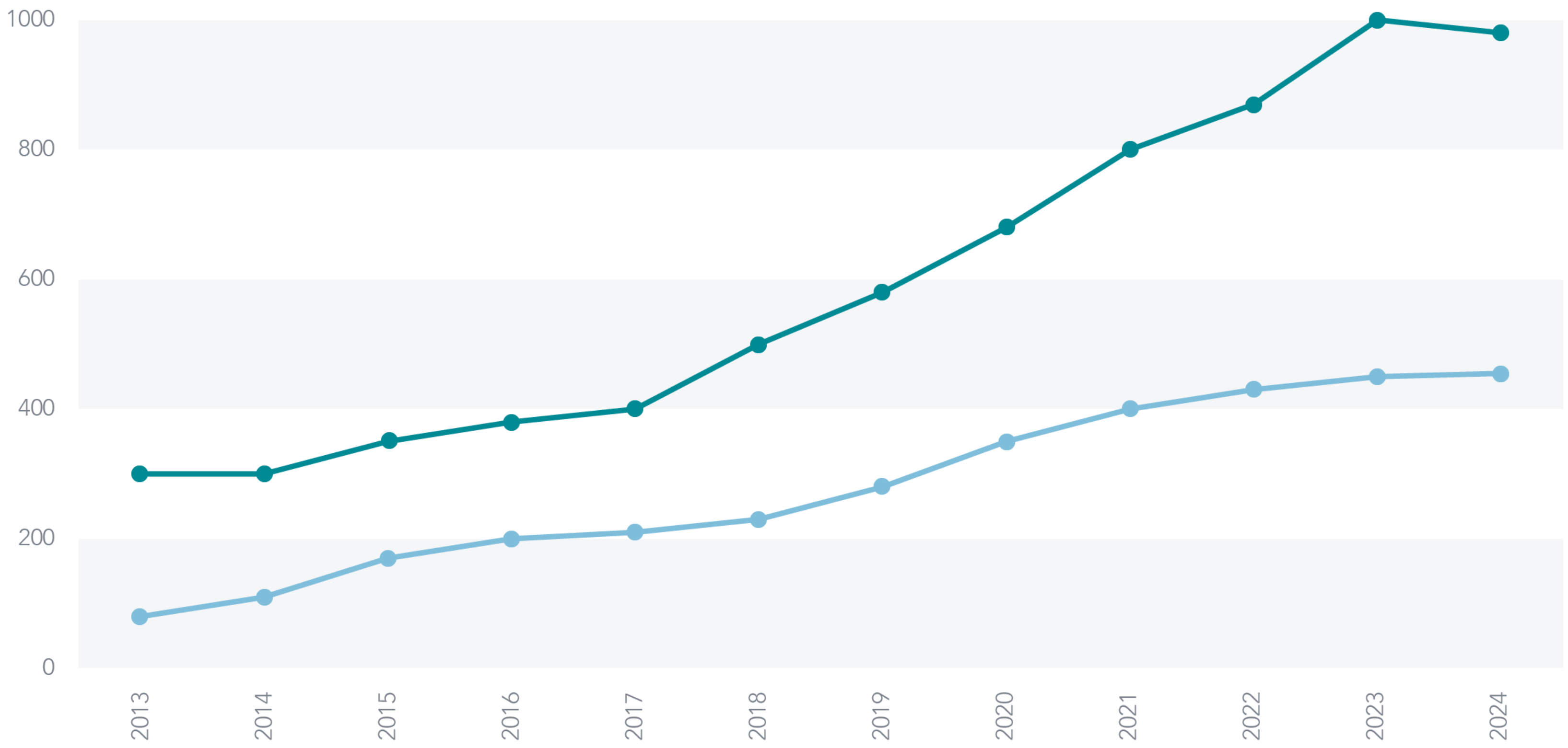
Declining interest rates and reduced cost pressures should decrease borrowing costs and strengthen cash flows, leading to higher multiples.

Private Credit surge

Private Credit again experienced stronger demand in 2024 as a significant source of capital for acquisition financing and growth capital.

We anticipate this market will continue to expand as lower interest rates should stimulate M&A transactions and drive dealmaking in private credit.

Private Credit - AUM Evolution ($bn)



Key:

North America

Europe

Source: Albourne Q4 2024. Past performance is not a reliable indicator of future returns.

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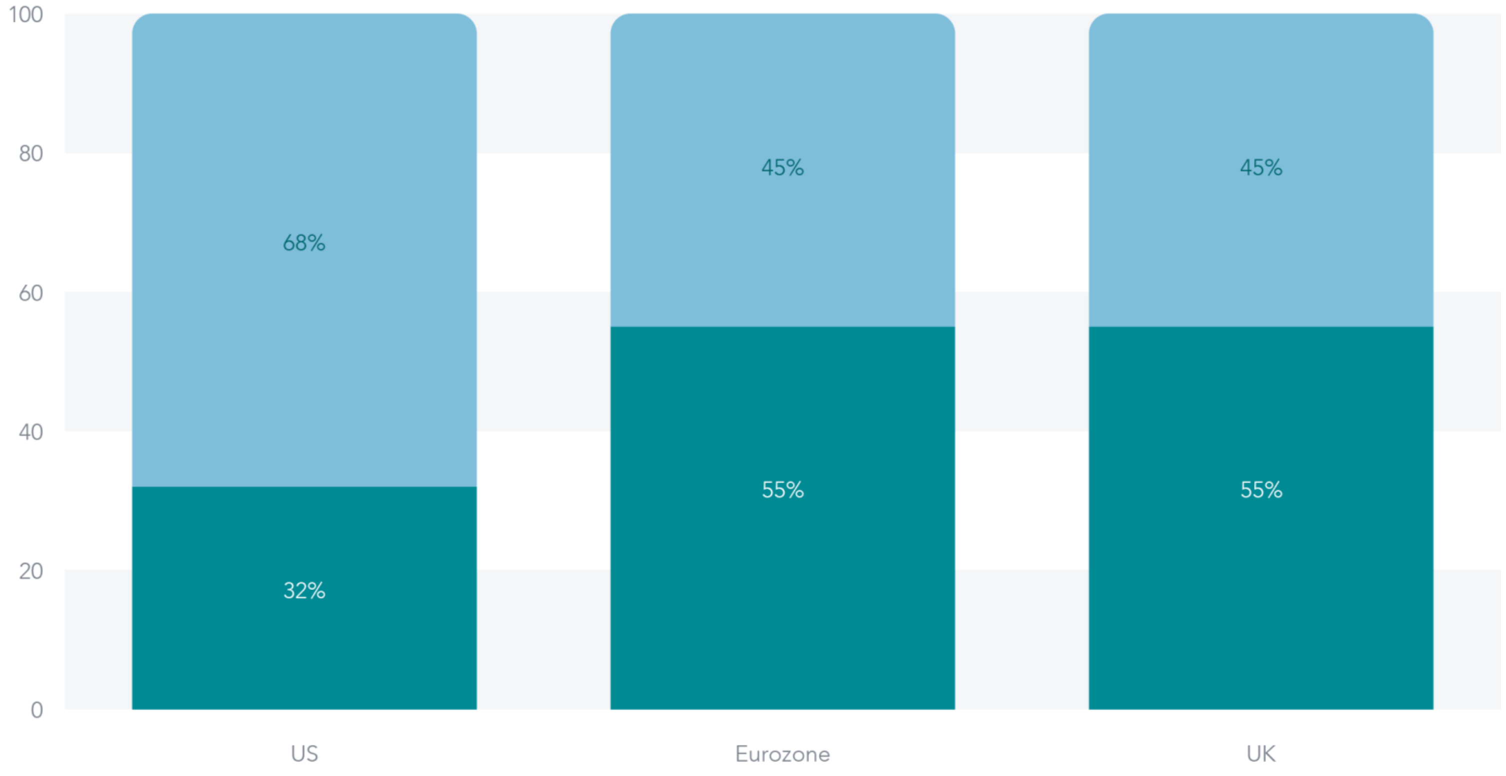
Private Credit in high demand

Our strategy: we maintain our positive view on private debt into 2025.

High borrowing demand and limited traditional liquidity have improved private lenders' financing terms and increased focus on lender protection.

The lack of traditional capital is pushing strong businesses, typically funded through public markets, to seek private credit instead.

% of Credit to Private Corporations via Bank vs. Private Financing



Source: Albourne, Q4 2024

Key:

- Banks
- Non-Banks

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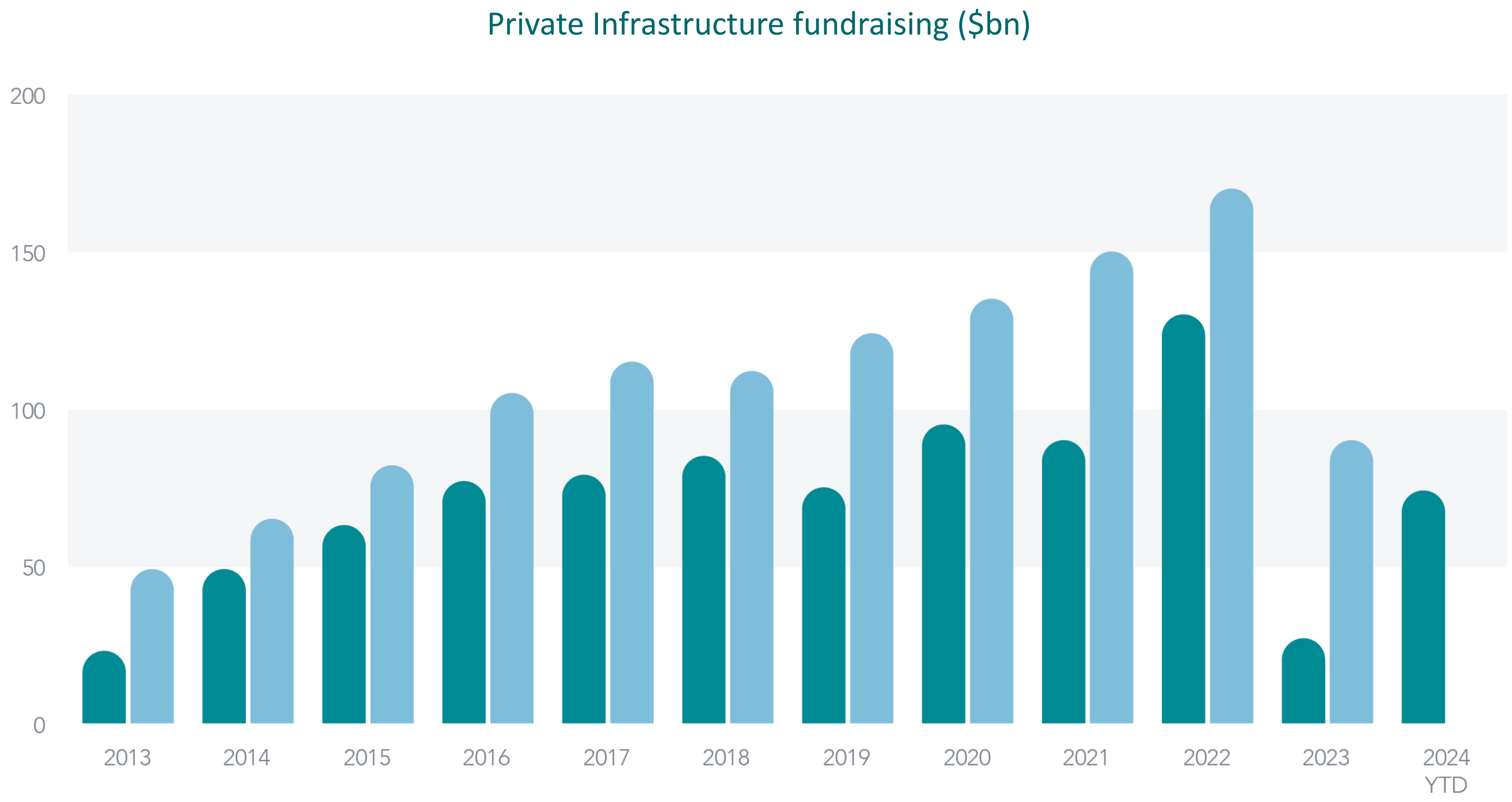
Improvement in fundraising for Private Infrastructure



Source: UBS 2025 Outlook

We are seeing an improvement in the infrastructure deal market and fundraising.

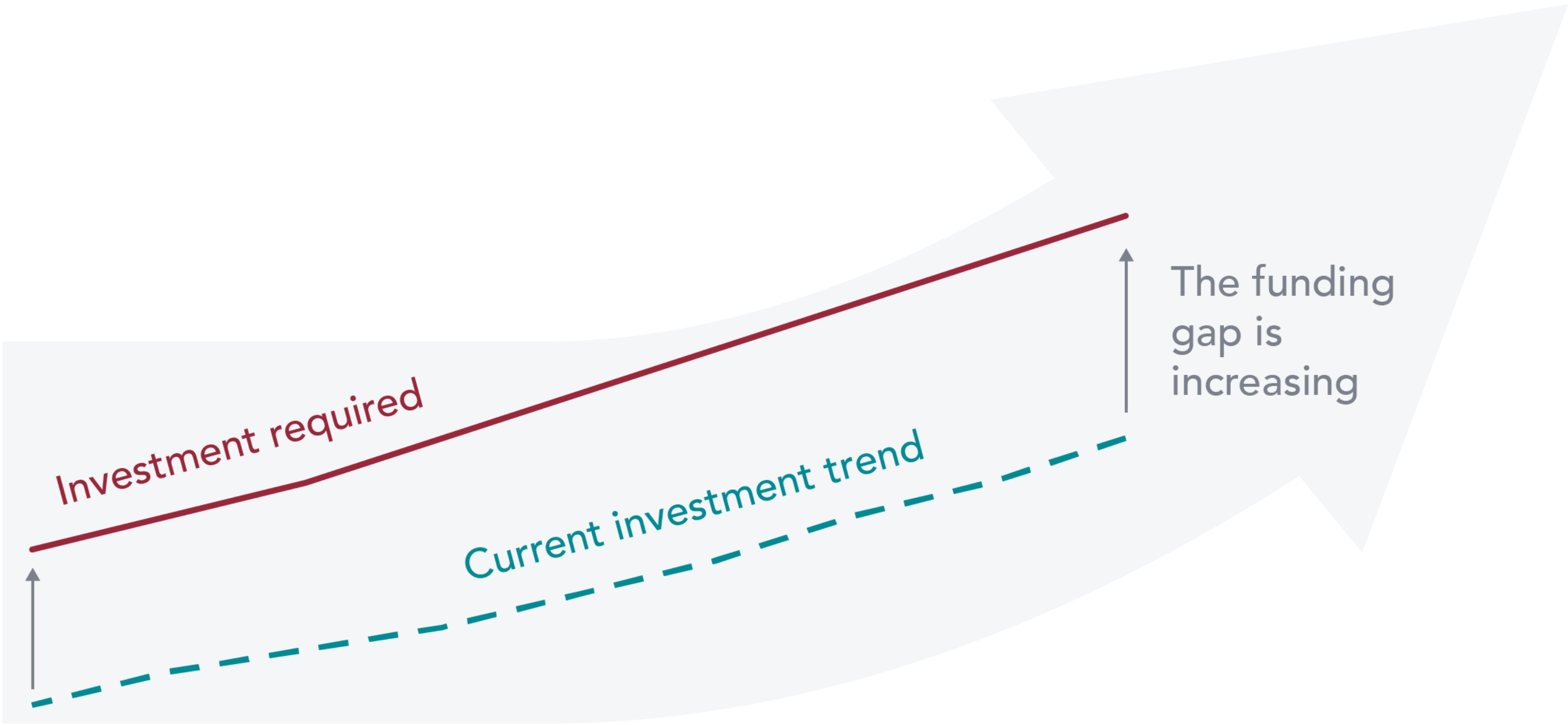
In the first three quarters of 2024, the infrastructure industry raised over USD 70 billion, 150% higher than what was raised in the same period in 2023.

Key:
- Q1-Q3
- Q4

The infrastructure funding shortfall

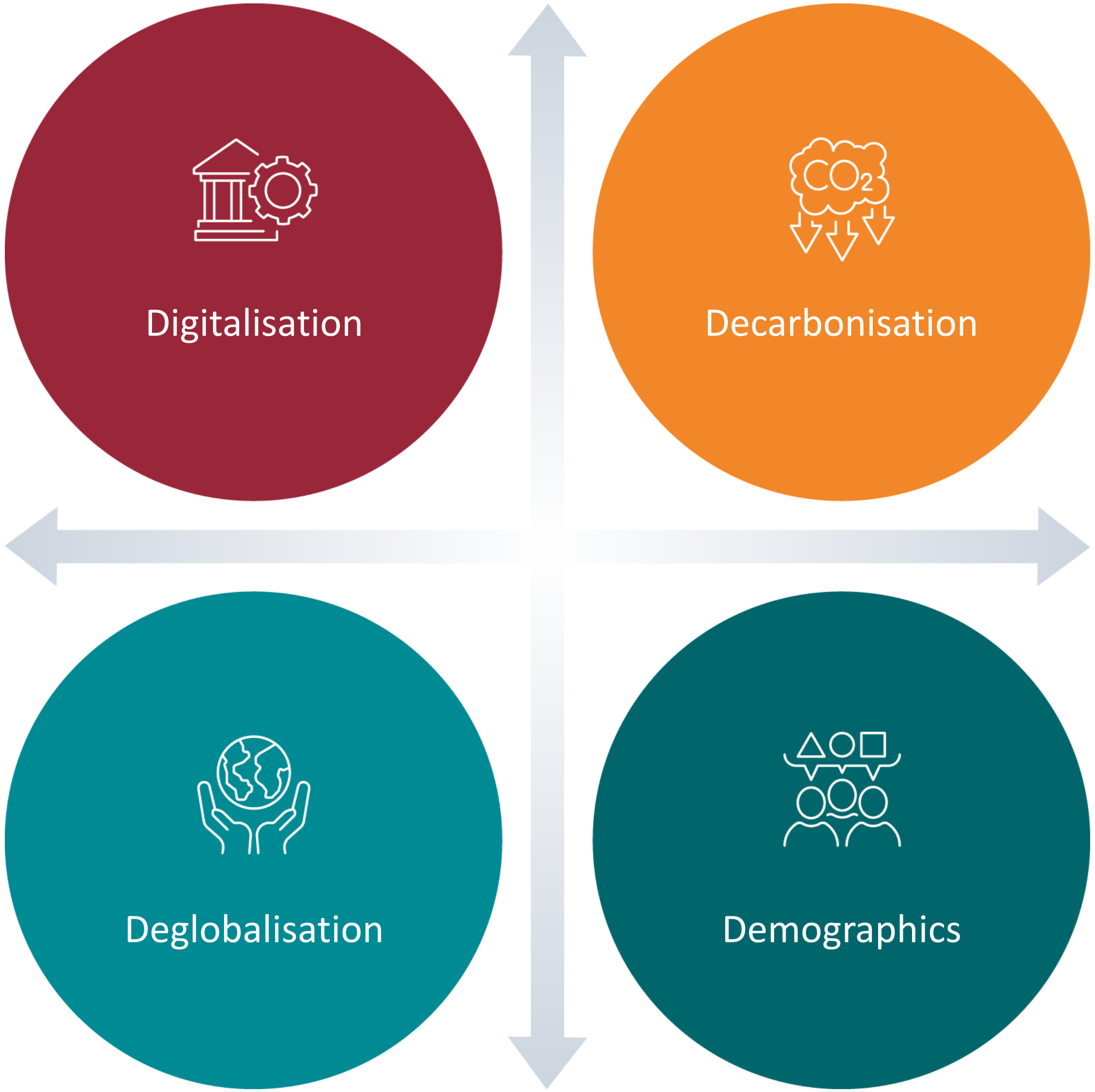
By 2040, worldwide infrastructure spending need is estimated to reach $97 trillion. The funding gap is expected to be $15 trillion.

This creates an opportunity for private capital to step in and fill the gap in the form of private infrastructure engagement.



Source: Global Infrastructure Outlook, A G20 Initiative, 2024

Key trends shaping Private Infrastructure

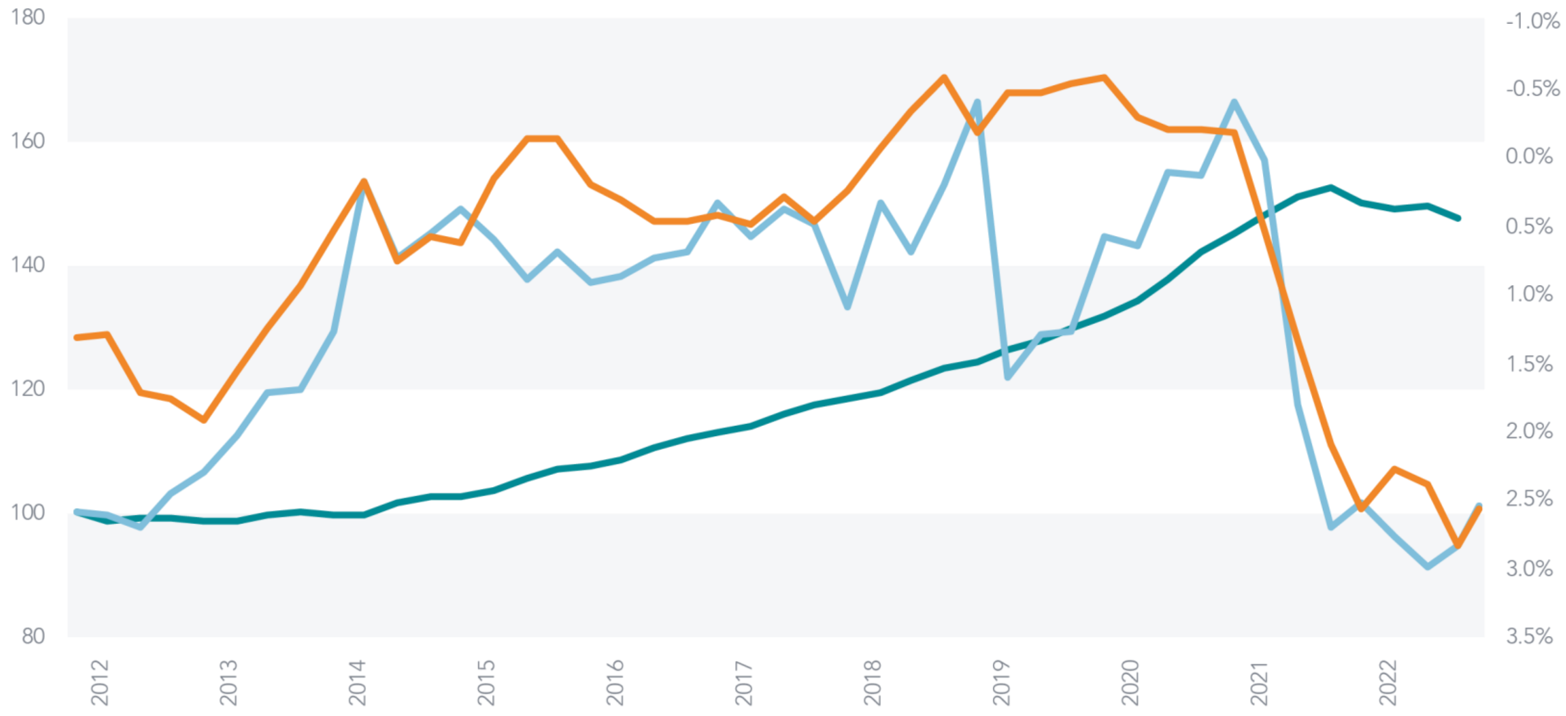


Our strategy: we maintain a positive view of private infrastructure as an asset class with a broad opportunity set in future proven trends like Decarbonisation, Deglobalisation, Digitisation, and Demographics.

Private Real Estate: long-term resilience

Short-term performance was dominated by lower deal volume and higher bid-ask spreads between buyers and sellers. However, long-term performance remained intact, reiterating the long-term nature of private markets.

Eurozone Housing Price Index,
European Public Real Estate (EPRA) Index
& 10-Year German Yield (%)



Key:

- Housing Price Index (LHS)
- EPRA Index (LHS)
- 10-Year German Yield (RHS, inverted)

Source: In-house research, Eurostat, Bloomberg. Past performance is not a reliable indicator of future returns. Prices rebased to 100 as of 1 January 2012.

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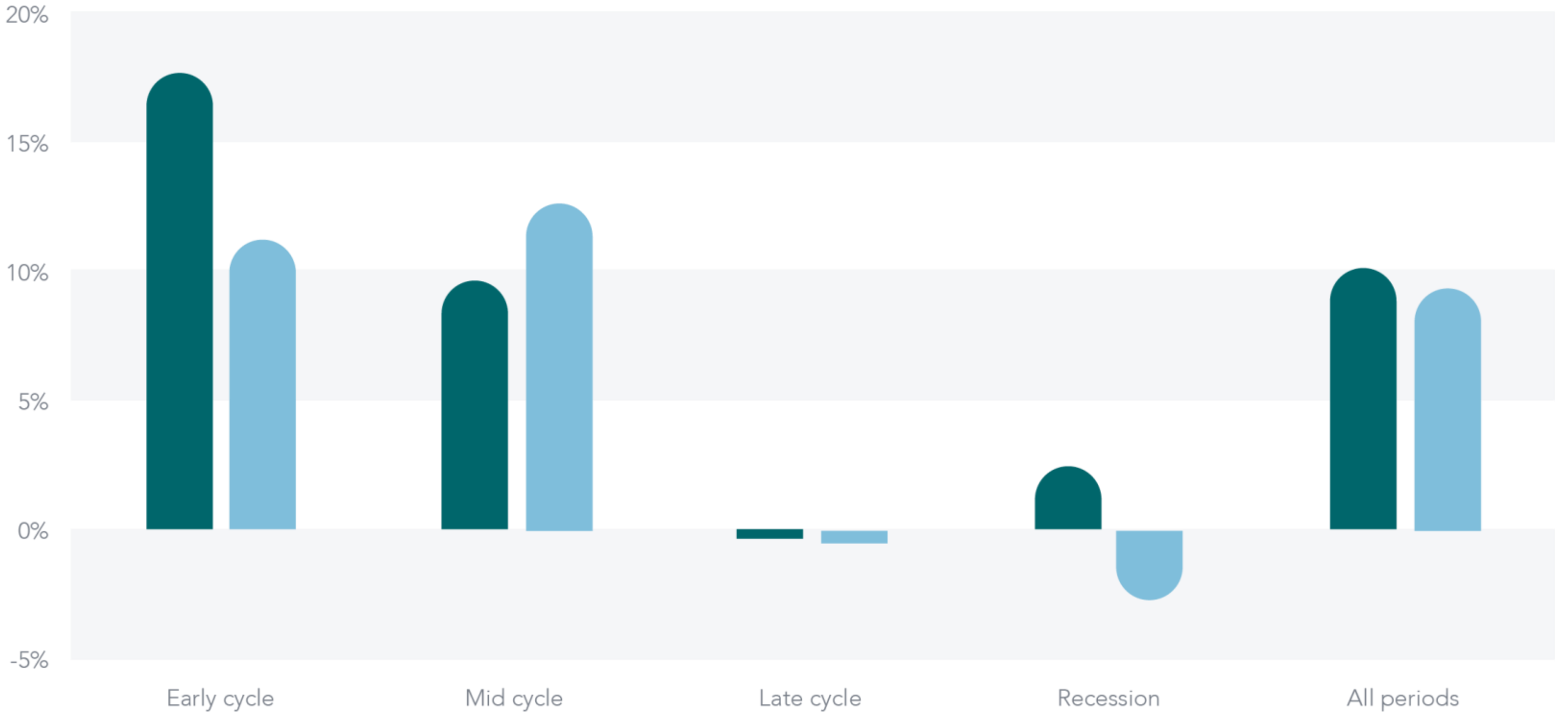
Private Real Estate driven by interest rates and the economy

Our strategy: we maintain a balanced view. In 2025, the real estate market is expected to present a variety of scenarios, depending on specific sectors and deals.

We believe that the end of central banks' tightening cycle should mark the start of a good environment for private real estate and publicly traded REITs.

Average 12-Month Forward Total Returns
(January 2000 - December 2022)



Key:

Global REITs

MSCI World

Source: In-house research, Thomson Reuters Datastream, Cohen & Steers, Bloomberg. Past performance is not a reliable indicator of future returns.


MULTI-ASSET
SOLUTION

Advantages of Multi-Private Asset approach

Adjustability

Flexible adaption through active portfolio management across the different asset classes.

Potential

Broader opportunity set compared to public markets.

Diversification

Spreading investments across various asset classes allows investors to reduce risk and increase the potential for returns.

Regular cashflow

Investing in a mix of assets permits producing regular income from multiple sources.

Holistic approach

Multi-asset investing helps investors build more robust, well-understood portfolios.

Inflation protection

Multi-asset funds hedge inflation by offering real assets, inflation-linked income, and long-term capital appreciation.

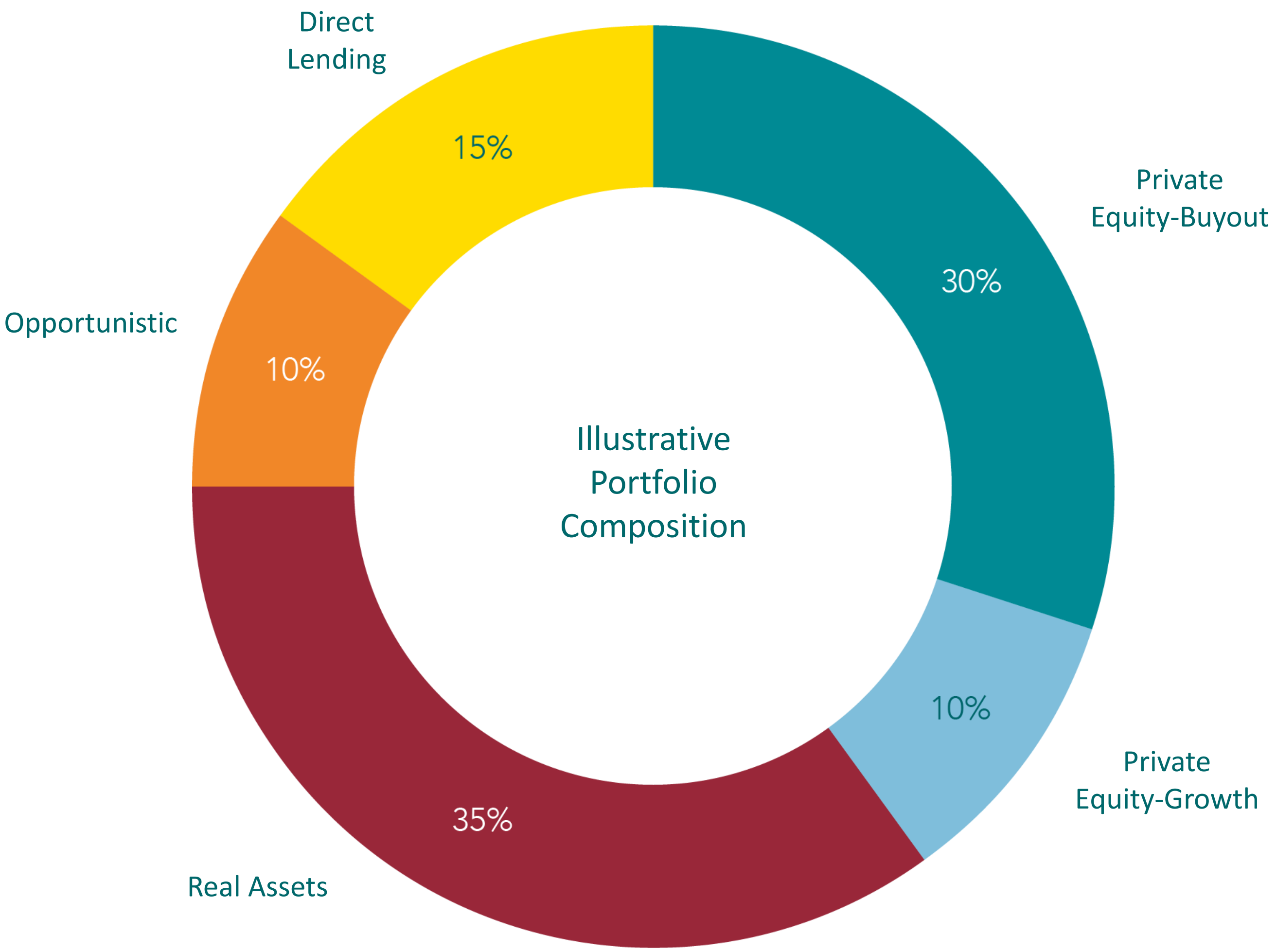
Capital gains

Investing in private market offers capital gains through asset appreciation, business growth, and strategic asset sales.

The Case for Multi-Private Asset solutions

A multi-alternative approach enhances portfolio resilience by integrating a broad spectrum of private market asset classes.

Diversification across investments that behave differently in various market conditions helps mitigate risk, while access to a wider range of opportunities expands the investible universe and future-proofs portfolios.



Source: In-house research, Apollo, 2024. For illustrative purposes only.

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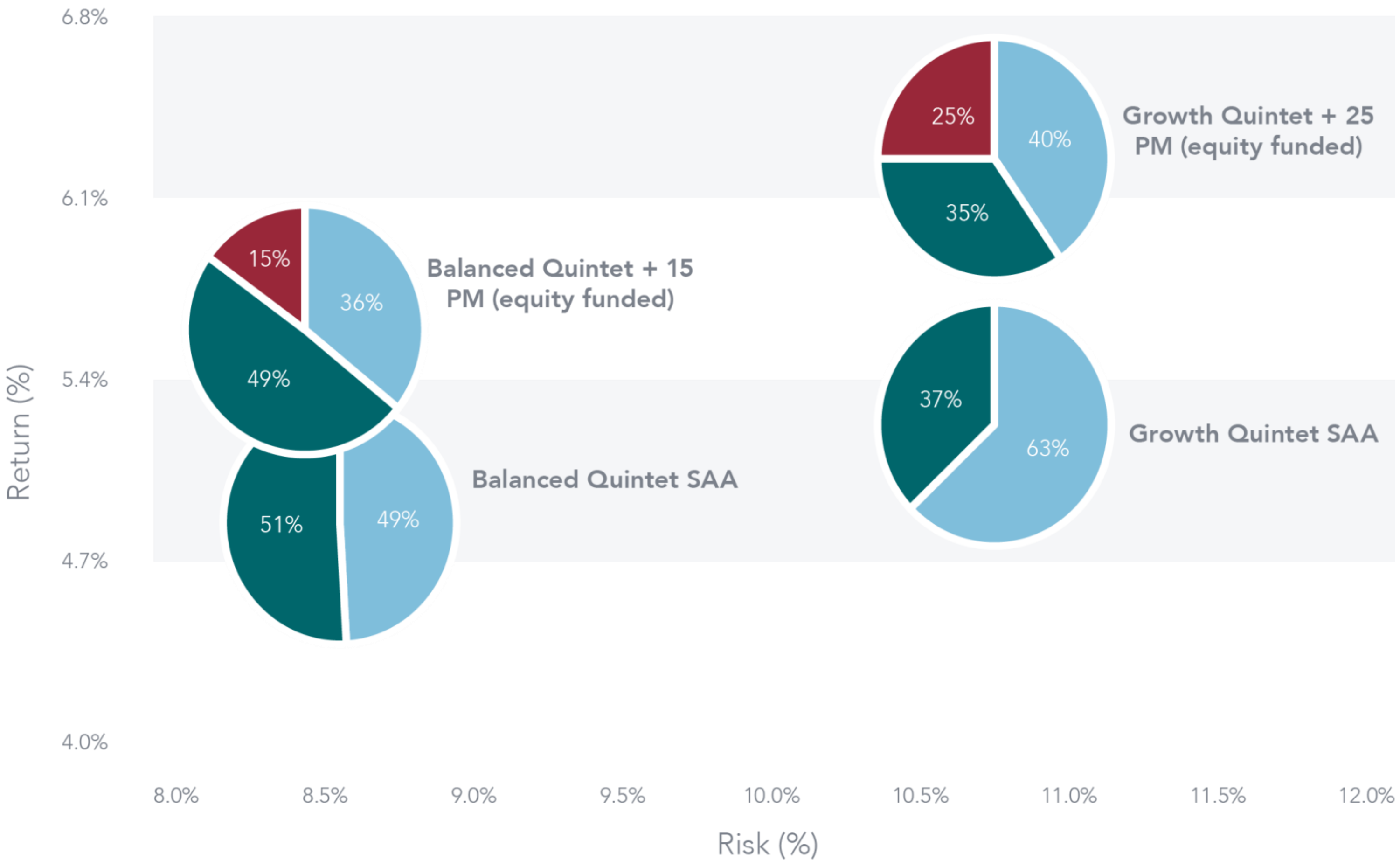
Strategic Asset Allocation with Private Markets

Our strategy for advised clients: we guide to a sensible portfolio optimisation with a 15% target allocation for Balanced profiles and 25% for Growth profiles.

Depending on the risk appetite and liquidity preference, the overall portfolio return can be improved, or the risk can be reduced for a similar return outcome.

Key:

- Private Markets
- Equity
- Fixed Income



Source: In-house research, Apollo, 2024. For illustrative purposes only. SAA = strategic asset allocation.

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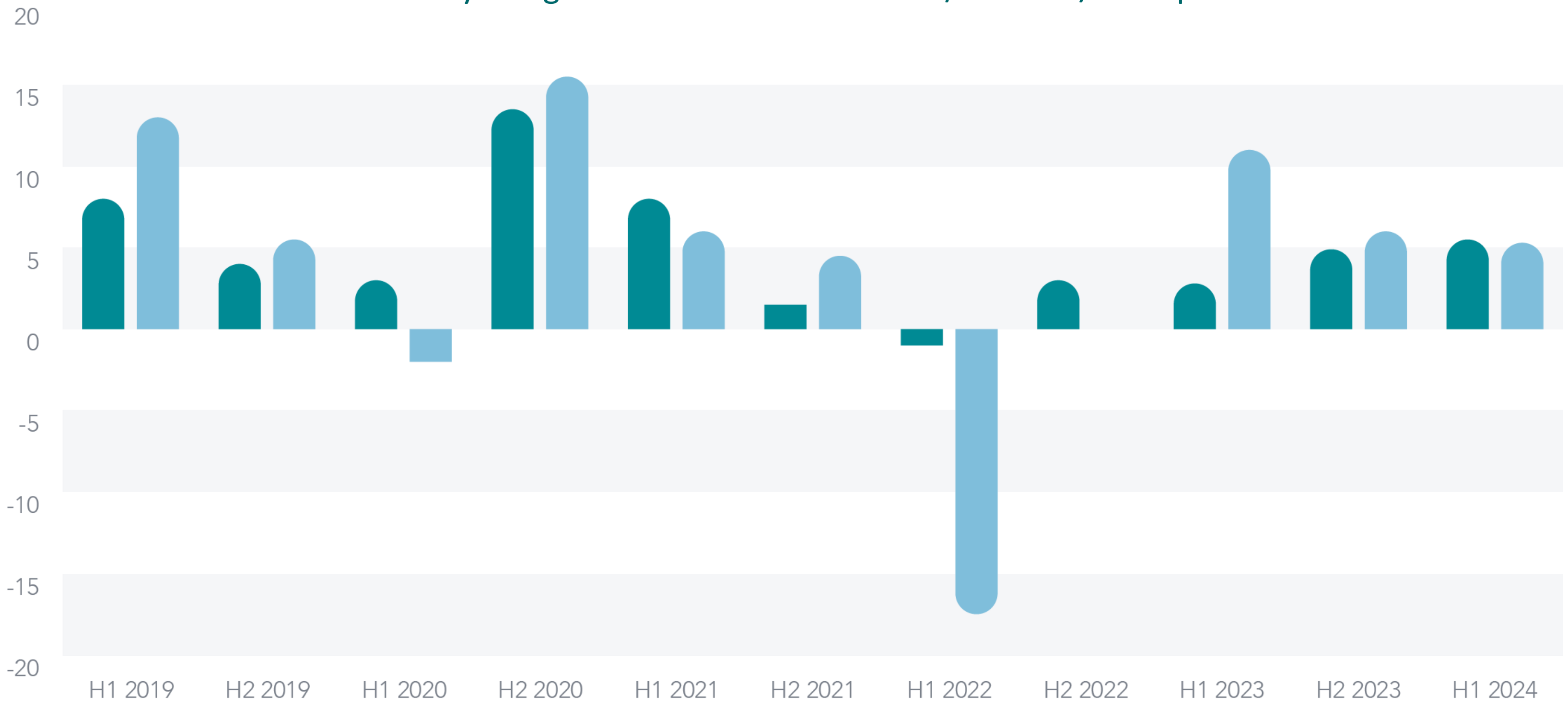
HEDGE FUNDS

Hedge Funds: effective diversifier

Hedge funds deliver risk-adjusted performance that provides investors with diversification benefits, even during challenging macroeconomic environments, as the performance of some HF strategies can be counter-cyclical in nature.

Half-Yearly Hedge Fund Performance vs. 60/40 stock/bond portfolio



Key:

Hedge Funds

Global 60/40 stock/bond portfolio

Source: Goldman Sachs Hedge Fund Market Recap & Outlook, data of Q3 2024. Past performance is not a reliable indicator of future returns.

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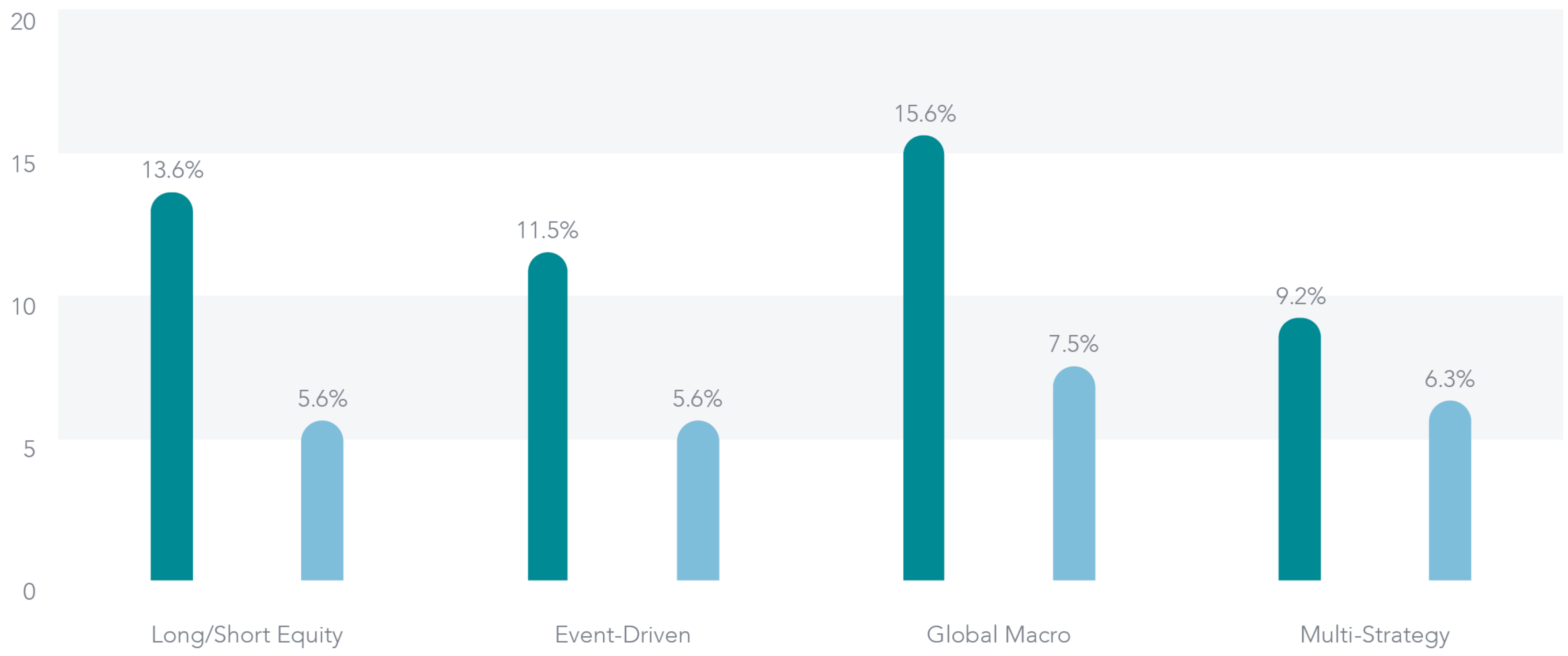
Hedge Funds returns improve with higher rates

Our view: Despite central banks starting to lower interest rates, we anticipate that the peak rate will remain significantly higher than the levels seen in 2020, potentially sustaining a favourable environment for Hedge Funds.

Hedge Funds perform better in higher risk-free rate environments



Key:

Risk-free rates >2%

Risk-free rates <0.5%

Source: Blackrock report "Hedge Fund Opportunities", 2023. Past performance is not a reliable indicator of future returns.

Contributors

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