BNY

# Alternative Asset Themes

# THE NEW PLAYBOOK

2025

# CONTENTS

# EXECUTIVE SUMMARY

Central themes are driving investment opportunities across a broad range of non-traditional asset classes, from cyclical trends and secular shifts to thematic innovation and structural changes. We explore how alternative investments can capitalize on these trends or hedge against potential headwinds they face.

Alternative investments are known to diversify portfolios and lower overall risk, increasing the potential for attractive returns. They can also weather different market environments regardless of the economic cycle by adding diversification and earning a risk premium during an expansionary period, or by capitalizing on discounted valuations during slowdown. Finally, alternatives can provide additional protection during market uncertainty, which is vital as we navigate the new policy and regulatory landscape.

Although the U.S. economy entered 2025 from a position of strength, the elevated uncertainty around the Trump administration's trade and tariff policy is likely to put downward pressure on an economy that was already slowing. It may also cause inflation to remain sticky for longer and push interest rates higher. Consequently, market volatility is likely to remain elevated throughout the year. In such an environment, we think alternatives can provide an essential portfolio ballast because they are less correlated to traditional assets, such as stocks and bonds, while also offering a source of additional returns.

# KEY THEMES

## 01 Private Equity Poised for the Breakaway

Lower interest rates, the promise of deregulation and attractive valuations set the stage for sustained momentum.

**Capitalize on a rebound in private markets.**

## 02 Shifting Gears Drive Opportunities in Private Markets

Private credit offers income potential in any interest rate environment, and asset-backed lending is poised to grow.

**Diversify your fixed income allocation with an "all-weather" solution.**

## 03 Innovation is Moving from the Boardroom to the Locker Room

Exciting investment opportunities across artificial intelligence (AI), as well as sports and live entertainment, open new return streams.

**Be more than a fan; be a stakeholder.**

## 04 Structural Changes Widen the Playing Field

Innovations expand access and broaden growth opportunities to a wider investor base.

**Find the risk/reward sweet spot in a broad array of investment vehicles.**

01

# Private Equity Poised for the Breakaway

An inflection point for private equity: Low valuations, a surge in activity and a new regulatory landscape may offer investors an attractive entry point

# SUPPORTIVE MACRO TRENDS

Private markets have reset over the past 24 months, with valuations sharply declining from their unusual highs of 2021 before settling at more normalized long-term levels in late 2024. The elevated rate environment has made leveraged transactions more expensive, leading to a sharp decline in dealmaking. The slowdown in the exit environment through mergers and acquisitions (M&A) and initial public offering (IPO) activity left general partners with approximately $3.2 trillion in unsold assets.[1] Recent figures show that the value of aging un-exited companies has hit a record high of $3.2 trillion, up from approximately $1 trillion in 2016.[2] This also resulted in less capital being returned to investors, which further contributed to fundraising challenges. The declining deal environment, coupled with increased investor demand, led to a stalemate.

Late 2024 set the stage for renewed optimism as the Federal Reserve (Fed) shifted to easing monetary policy, the economy proved resilient, and President Trump promised more business-friendly deregulation while on the campaign trail. We expect last year's rebound in dealmaking activity to continue gaining momentum in 2025 if the Fed continues easing, policy uncertainty abates, and regulatory constraints are lifted. This can also facilitate more favorable conditions for private equity deals because lower interest rates make leveraged buyouts more attractive.

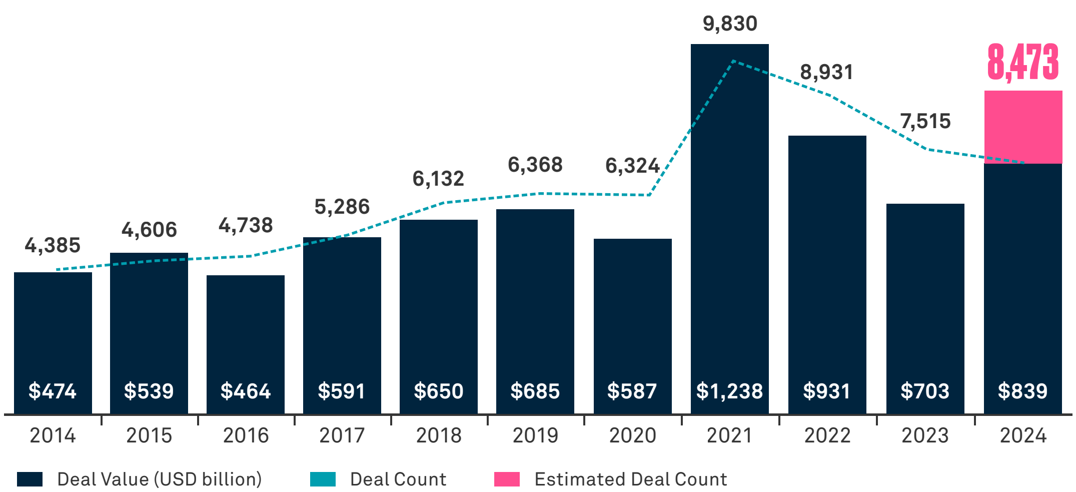
We believe these dynamics will favor lower middle market buyouts, growth equity and venture capital given the recent resetting of private markets. Private equity (PE) secondaries can be an efficient portfolio construction tool to accelerate and diversify an investor's PE allocation. Furthermore, the ongoing volatility stemming from policy uncertainty creates ample investment opportunities for hedge funds' diversifying attributes.

# THE DEALMAKING REBOUND

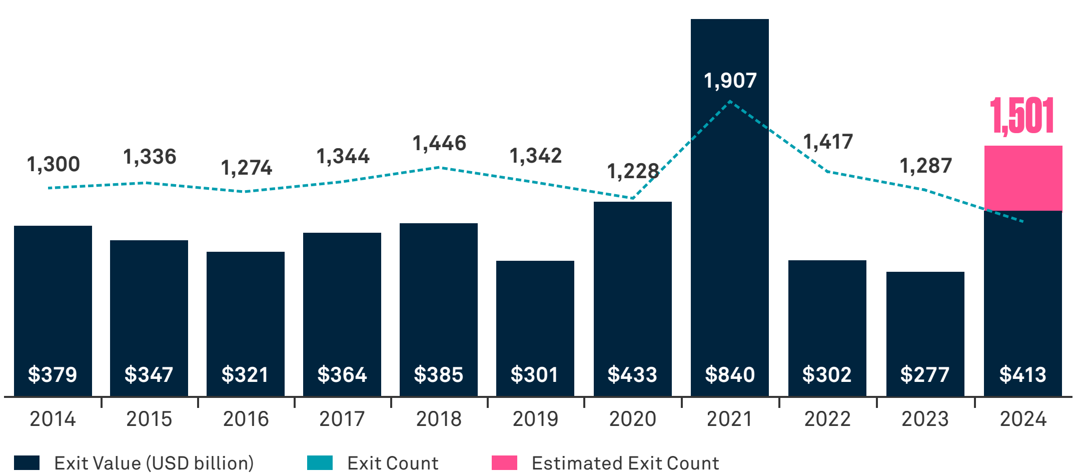
The improved macroeconomic conditions in late 2024 led to a rebound in deal activity. PE deals increased by 22% year over year,[3] and IPOs surged due to pent-up demand from sluggish exit activity. The number of deals and the private equity exit value rose by 50% year over year in the U.S.[4]

A recent rise in activity suggests an early stage rebound in private markets.

## US Private Equity Deal Activity




## US Private Equity Exit Activity



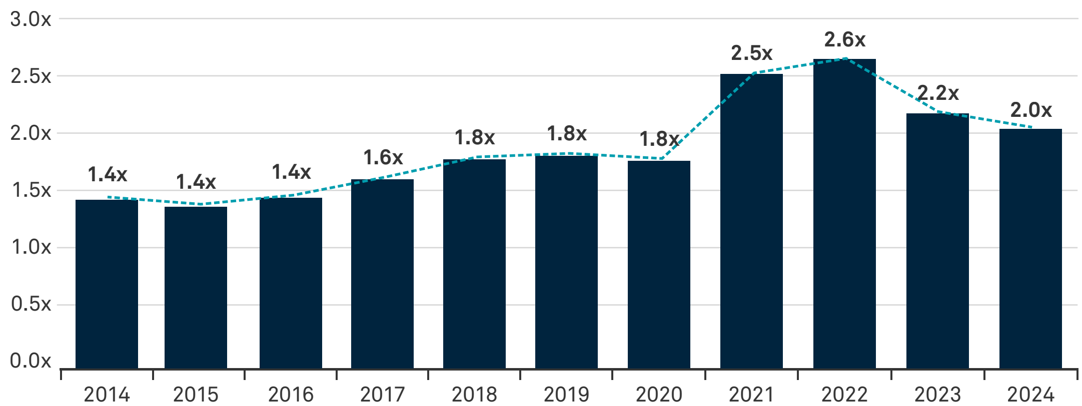

Source: *The 2024 Annual US PE First Look*, PitchBook Data, Inc. Data as of December 31, 2024.

Similarly, there was a notable increase in exit activity, with M&A activity rising 28% in value, and IPOs increasing 38% year over year in 2024.[5] While the rise in M&A and IPO activity is expected to continue, the growth will be affected by any prolonged market volatility and dependent on economic conditions.

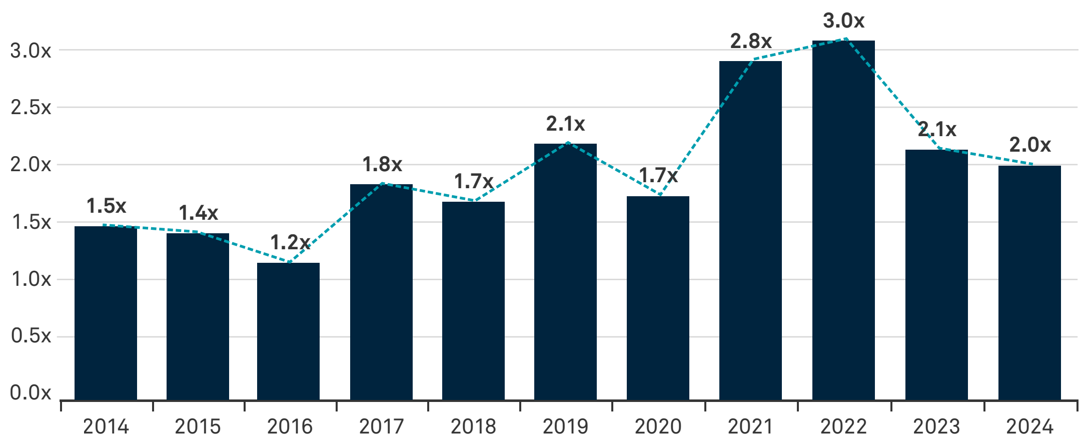
Any further easing by the Fed, coupled with supportive fiscal policies, should be positive for the economy. This should also underpin more favorable conditions for PE deals, given that lower interest rates make leveraged buyouts more attractive and lower valuations allow general partners (GPs) to acquire businesses at more attractive entry points.

Lower valuations may offer attractive entry points in private markets.

## Global Private Equity Enterprise Value/Revenue Multiples




## US Private Equity Enterprise Value/Revenue Multiples




Source: *The 2024 Annual Global PE First Look* and *The 2024 Annual US PE First Look*, PitchBook Data, Inc. Data as of December 31, 2024.

# PRIVATE EQUITY

## Focus on Reasonable Earnings & Operational Value

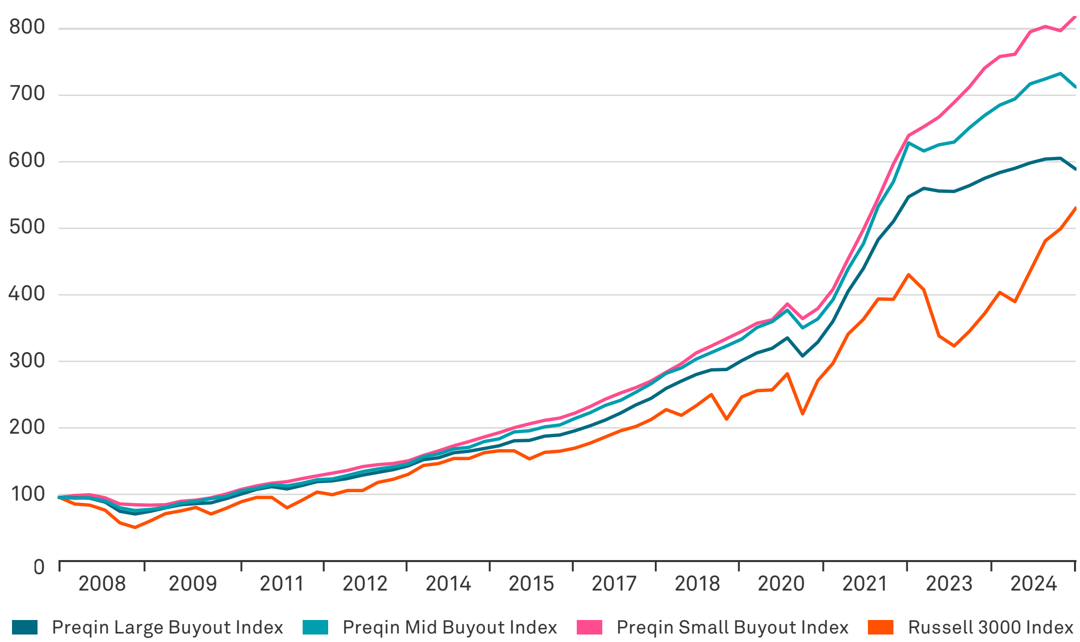
Within private equity, we expect lower middle market, growth equity and venture capital to benefit from this inflection point. The lower-middle-market space tends to offer more reasonable valuations, and returns are driven by operational value add rather than leverage. Companies in this segment tend to have more room for growth and improvement, and exit opportunities can elevate businesses to a larger market cap—with higher valuations—creating an inherent return arbitrage.

Another area that excites us in this environment is growth equity. This strategy focuses on high-growth, founder-owned businesses, and acquiring minority stakes to drive the next phase of the growth cycle. These firms tend to be in sectors such as AI, machine learning, healthcare innovation, energy transition and other high-growth sectors, offering potentially high rates of return. Valuations in this segment are down from their 2021 highs, allowing investors to be more selective among higher-quality businesses. We believe growth equity is a great complement for a core PE allocation.

We favor the lower middle market, which has historically delivered the highest illiquidity premium, regardless of market conditions.

### Private Equity Performance vs. Public Equities

Index = 100 on December 31, 2007




Source: Preqin. Data as of September 30, 2024.

# VENTURE CAPITAL

## Quality Entrants

There has been a welcome reset in the venture capital market, which has been at a more investor-friendly point than it has been in a decade. Valuations have come off their abnormally low levels, and the types of companies entering the market have been of a higher caliber than those seen in recent years. As such, venture firms can now negotiate more favorable terms and acquire more significant stakes in startups, which can benefit investors upon successful exits. Venture capital also stands to benefit from a looser interest rate policy, as lower rates can improve the valuations of an asset class that relies heavily on discount rates and future cash flows.

We are excited about the current landscape and the opportunity to generate the continued illiquidity premium in private equity, growth equity and venture capital.

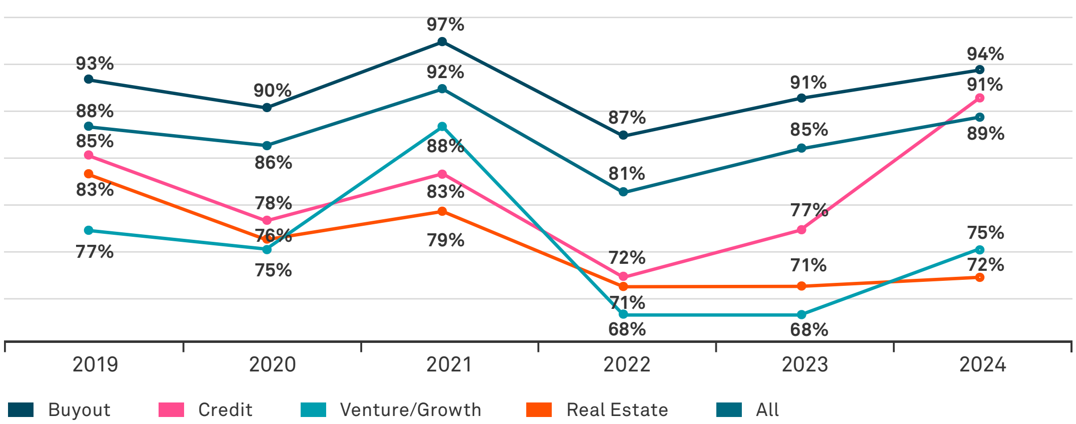
# SECONDARIES

## Improving Transaction Volume & Portfolio Construction Tool

Demand has increased for secondaries as GPs, or private equity funds, seek additional ways to provide liquidity to limited partners (LPs) in their funds. Secondaries occur when PE funds sell their mature funds to secondary buyers, offering the LPs a path to liquidity while also holding on to those assets with the most compelling growth potential. This has become an innovative method to return capital to LPs. Additionally, investors in secondaries often purchase interest in these semi-mature PE investments at a discount, while receiving the benefits of diversification and a shorter time horizon to liquidity.

Secondary investments can be acquired at attractive valuations, often at a discount to net asset value (NAV), providing an attractive private equity entry point.

### Limited Partner Pricing as a Percentage of Net Asset Value




Source: *Global Secondary Market Review*, Jefferies, January 2025. Data as of December 31, 2024.

Although interest rates have begun to stabilize and the exit environment is potentially heathier, we continue to believe the secondary market will grow in popularity throughout 2025 and beyond. Currently, around 28,000 companies are sitting in buyout funds valued at around $3.2 trillion, and nearly half of those companies have been held for over four years, making them prime for a sale.[6] Furthermore, secondary transaction volume has grown substantially, reaching approximately $160 billion in 2024, up from $108 billion in 2022.[7] As a result, we believe that GPs will continue to seek alternative forms of liquidity through secondaries.

Additionally, we believe the growth and market acceptance of secondaries across the industry means the market is in a strong position to expand. From a portfolio construction perspective, secondaries—because of their significantly funded nature, which results in earlier exits and cash flows to investors—complement a core private equity allocation. Secondaries also help to mitigate the j-curve by backfilling PE vintages to create a well-rounded private markets portfolio. For those investors starting on their private equity journey, secondaries may provide a faster way to build up an allocation across several vintage years to create a well-diversified private equity portfolio.

# NAVIGATING THE NEW POLICY & REGULATORY LANDSCAPE

### IMPACTS OF DEREGULATION IN PRIVATE MARKETS

The Trump administration has started to introduce a more business-friendly environment with increased deregulation in the U.S., which can boost growth in AI and digital assets. Historically, deregulation has fostered innovation by reducing bureaucratic hurdles, lowering operational costs and accelerating market entry. Venture capital could benefit from the more accommodating regulatory framework by removing potential obstacles to innovation and dealmaking.

### TARIFF, TRADE & IMMIGRATION POLICIES

The current administration's tariff, trade and immigration policies will be crucial in shaping the economic landscape. Tariffs and new immigration policies may increase inflationary pressures. To the extent higher prices are passed on to consumers, they could have potentially negative effects on trade-dependent industries. Uncertainty around policy or unanticipated moves can also create volatility in the markets. It is hard to estimate the impact on inflation and growth without knowing the level and duration of potential retaliatory measures, as well as the timing of pro-growth policies that could help to mitigate any negative effects.

### PRIVATE REAL ASSETS TO ADDRESS SUPPLY & DEMAND IMBALANCES

To mitigate against rising inflation, diversifying with private real assets, such as infrastructure and real estate, can prove beneficial and offer potential capital-growth opportunities. Real assets, such as data centers, present secular growth opportunities driven by the accelerating need for data computing, a demand not being met with current supply. Furthermore, traditional infrastructure assets, such as toll roads, airports or utilities, often carry inflation step ups, providing inflation-linked return streams.

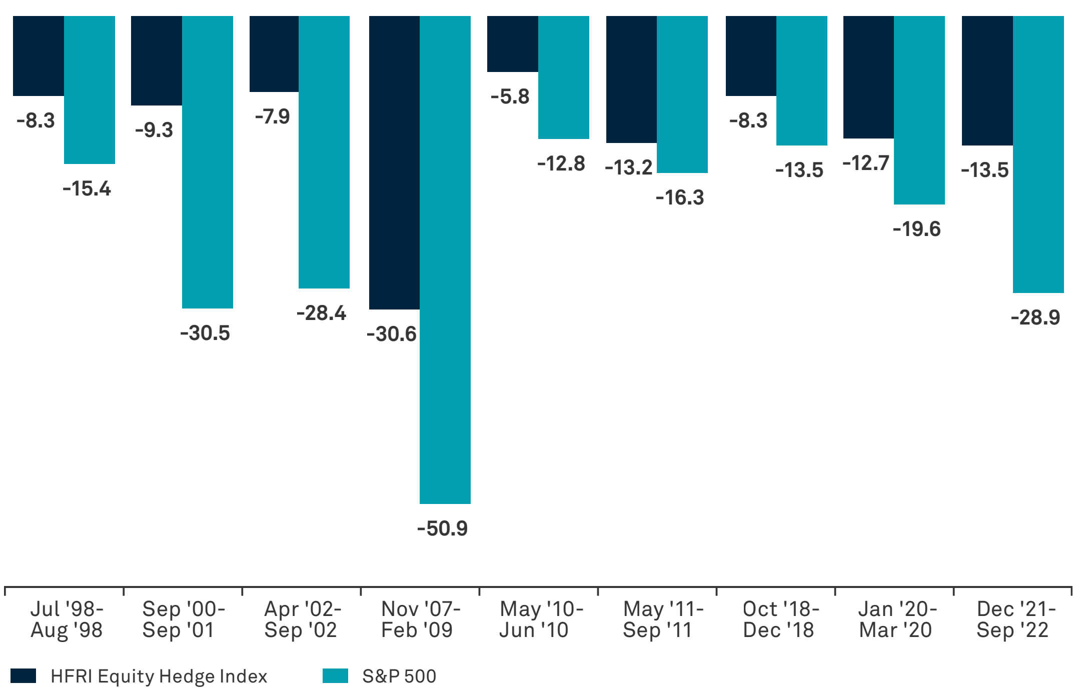
### HEDGE (FUND) AGAINST VOLATILITY

In times of uncertainty, the need to hedge against volatility becomes more critical. Diversifying with hedge funds may be one way to help mitigate volatility, mainly through market-neutral and multi-strategy approaches. These portfolios are often positioned as neutral to the movements of the public markets, offering lower volatility, correlation and beta to markets.

Historically, in significant equity market declines of more than 10%, hedge funds have offered downside protection, as seen in the HFRI data in the hedge fund performance chart below:

Despite the timing, size, or severity of market downturns, hedge funds have historically served as a potential safeguard for portfolios.

## Hedge Fund Performance During S&P 500® Drawdowns



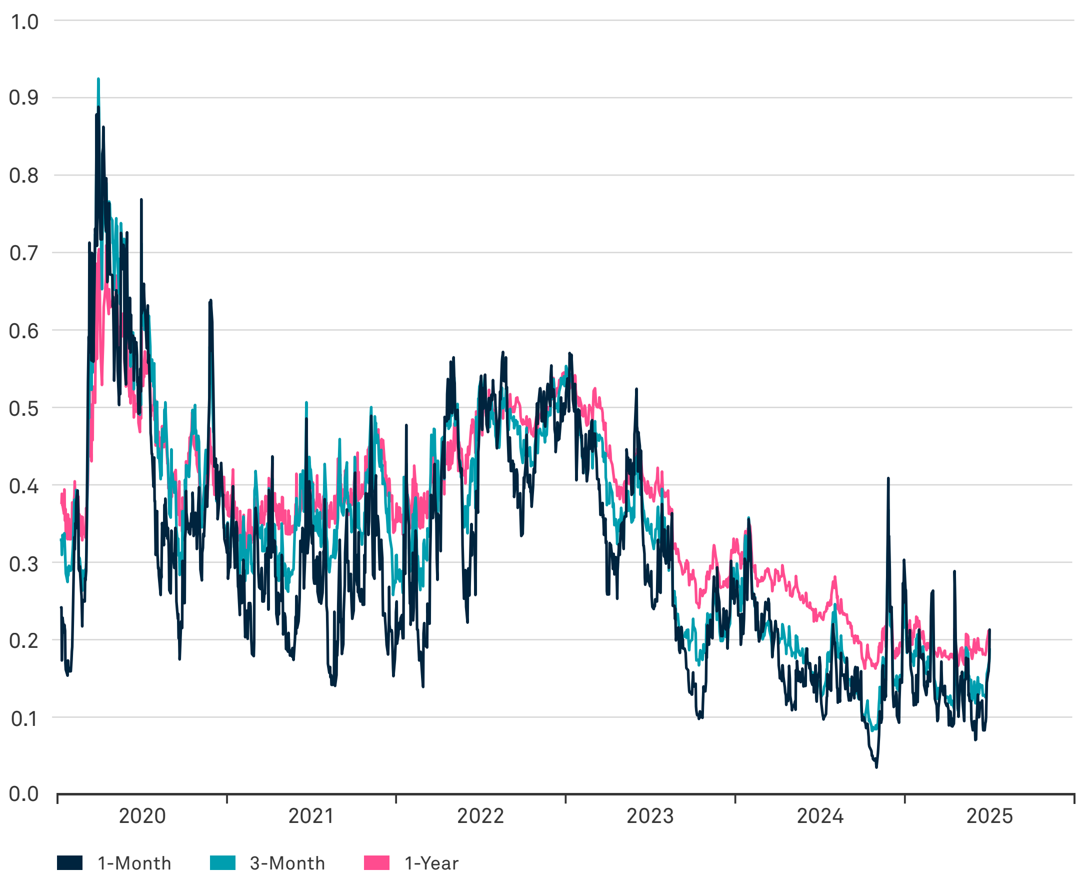

Source. BNY Advisors, Morningstar. Data as of December 31, 2024. Indices are not available for direct investment.

Furthermore, global macro strategies—via their focus on broad macro-driven themes—use multiple trading strategies across equity, fixed income, currency and commodity markets to express views on expected policy changes or geopolitical dynamics.

Historically, hedge funds have demonstrated an ability to capitalize on economic growth, interest rate fluctuations and currency differentials worldwide, offering a hedge against market instability. Furthermore, the gradually decreasing correlations among U.S. equities create a more attractive investment environment for security selection and for hedge funds to derive value on both the long and short sides. Thus, it is unsurprising that investor interest and allocations to hedge funds have increased over the past year. Recent surveys indicate that more than half of investors plan to increase their hedge fund commitments throughout 2025, marking a twofold increase.[8]

Hedge funds have the potential to achieve more stable and potentially higher returns in an environment where correlations across equities have fallen.

## Correlations Among S&P 500 Stocks




Source: BNY Investment Institute. Data as of February 27, 2025.

# THE TAKEAWAY

Collectively, these factors highlight the complex interplay between policy decisions and investment opportunities, emphasizing the importance of considering a strategic allocation to alternatives with the ability to recommend tilts to those exposure levels as economic conditions warrant.

We are strong proponents of proper vintage diversification, with a consistent commitment to private markets, where investor capital is spread across the various parts of the market cycle. Nevertheless, we think the current macro environment is a particularly attractive entry point into lower-middle-market buyouts, growth equity and venture capital given the recent resetting of the private markets. Additionally, PE secondaries can be an efficient portfolio construction tool to help accelerate and diversify an investor's PE allocation.

# 02

## Shifting Gears Drive Opportunities in Private Markets

# STRUCTURAL CHANGES IN EQUITY MARKETS

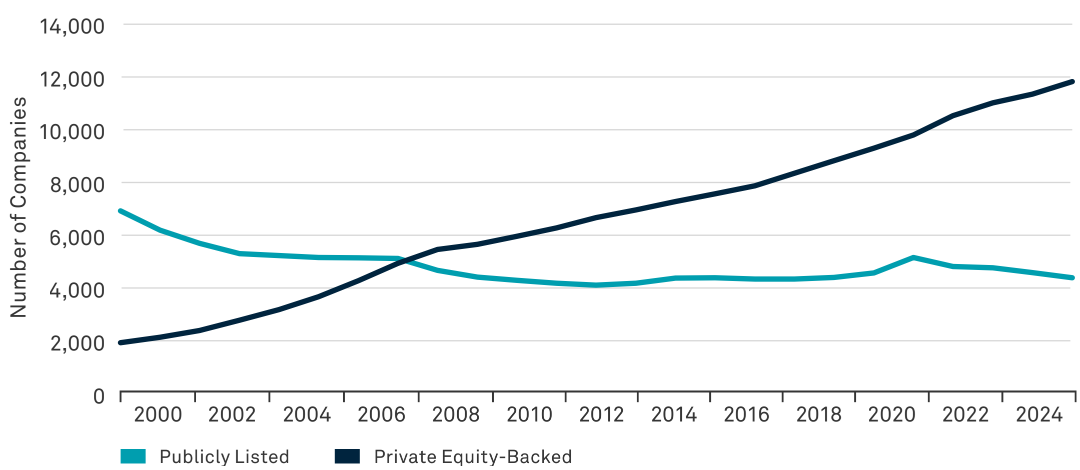
## Opportunities in Private Equity & Hedge Funds

Understanding the long-term trends underpinning the economy and markets is crucial to uncovering tailwinds and potential investment opportunities in long-term asset classes, such as private investments. Secular trends can offer valuable insights into future economic conditions, helping investors make more informed decisions. This strategic approach helps ensure that investments are aligned with broader economic movements, enhancing the potential for sustained growth and stability.

Over the last 15 years, we have witnessed a structural shift in the composition of equity markets, where companies are choosing to remain private for longer. Recent data finds that as of December 31, 2024, there are almost three times more private companies than public ones.

Companies are staying private for longer, leading to more opportunities in the private sector.

### Private Equity-Backed Companies vs. US Companies Listed on the New York Stock Exchange & NASDAQ




Source: World Bank, as of December 31, 2024. Note: Publicly listed data from before 2024 is from World Bank and Statista; 2024 data is from Morningstar.

By staying private, businesses enjoy access to private capital and can choose to maintain their status for longer, thus avoiding (or delaying) the scrutiny of public shareholders and focusing instead on growing the business over the longer term. This trend typically means that more value is created during the private stage, which can only be tapped into via the private markets. As a result, investors who utilize private markets have greater access to a larger opportunity set within the private equity and venture capital space, accessing more avenues for potential growth and wealth creation in their portfolios.

While the private company sector has expanded, there has been a simultaneous trend of rising concentration across the public markets. With fewer companies going public, leading stocks now hold a larger share of the market, which can potentially increase investor risk. Hedge funds, particularly those employing long-short strategies, can help mitigate this concentration risk by diversifying their portfolios away from these top stocks while hedging on the downside. This approach can help mitigate risk and manage the challenges associated with a concentrated market.

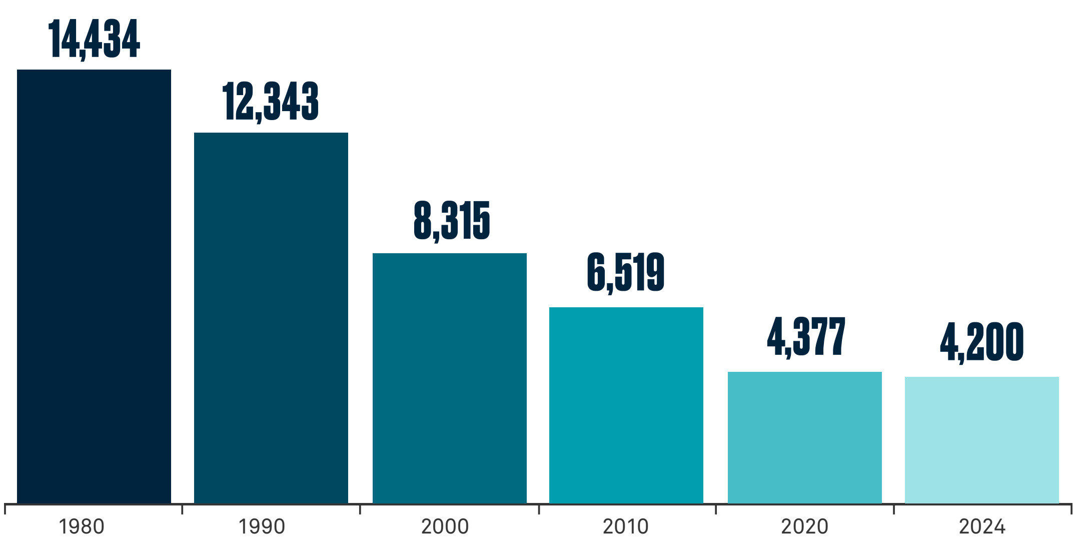
## STRUCTURAL CHANGES IN CREDIT MARKETS

### Potential Opportunities in Private Credit

Over the past two decades, there have also been notable structural changes across credit markets, which have, in turn, significantly impacted the lending landscape. Specifically, banks have retreated from traditional lending solutions, which has led to a liquidity shortage in conventional credit markets. The bank consolidation in the early 2000s, regulations following the Global Financial Crisis, and the more recent regional banking crisis resulted in continuous bank disintermediation, where fewer banks exist—there are approximately 4,200 FDIC-insured commercial banks today compared to 14,434 in 1980[9]—and the banks that remain are stepping back from lending activities. This immense void has allowed private credit to step in.

As banks have consolidated, private credit is filling the gap.

FDIC-Insured Commercial Banks from 1980-2024



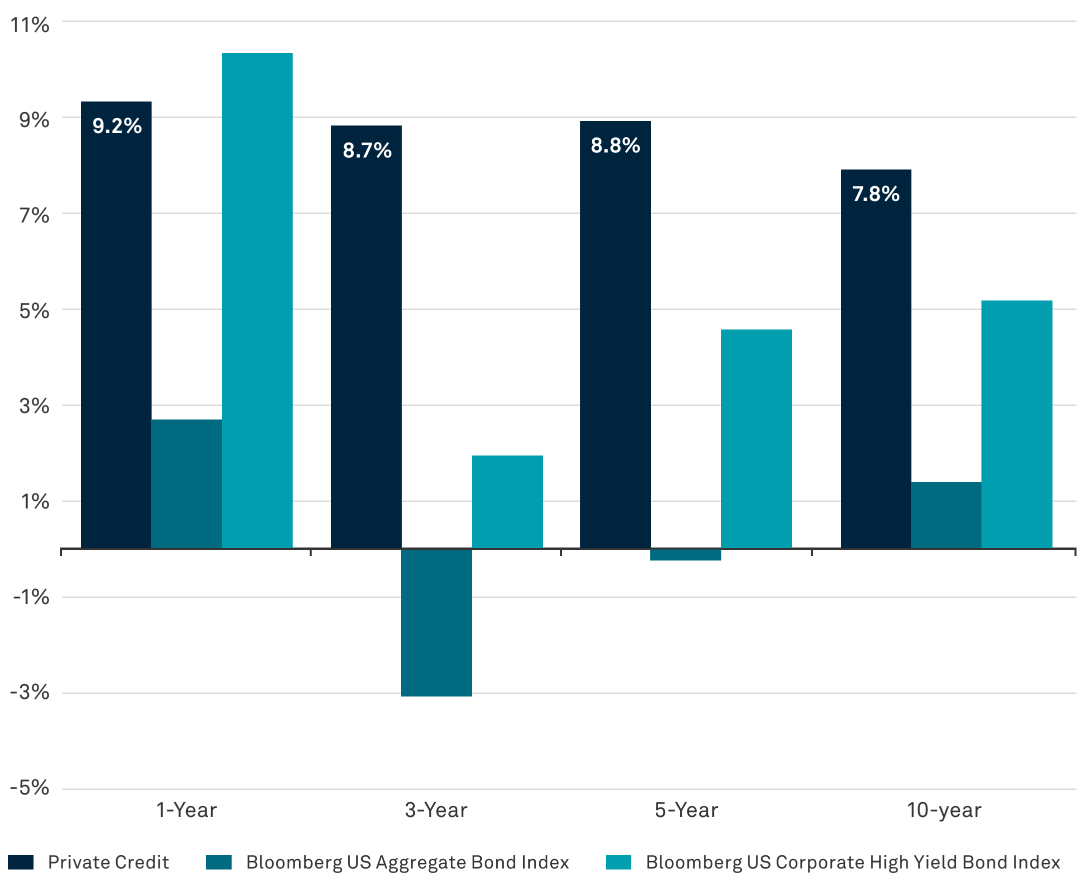

Source: Federal Deposit Insurance Corporation. Data as of December 31, 2024.

Private credit has demonstrated significant resilience and adaptability, providing a flexible source of capital for middle-market companies considered too complex for traditional banks. In simple terms, private credit (or direct lending) refers to loans from asset managers to private companies. As a result of their privately negotiated nature, these loans tend to carry a higher interest rate and have additional fees, providing an elevated return to investors compared to public debt. Historically, these loans have also offered lower defaults and higher recoveries, providing an attractive risk-return profile. We maintain our belief that private credit is potentially an all-weather strategy, historically outperforming public debt regardless of the interest rate environment. As illustrated in the chart below, private credit delivered a 200- to 300-basis point illiquidity premium over public debt, making private credit an attractive option for income.

History shows private credit is an all-weather strategy that historically outperformed traditional fixed income.

## Private Credit Offers a New Source of Income

Annualized Returns




Source: BNY Wealth, MSCI, Inc. Data as of June 30, 2024. Indices are not available for direct investment.

# ASSET-BACKED LENDING

## Complementing Direct Strategies

Asset-backed lending is a key growth area in the private credit asset class that augments traditional direct-lending strategies. The asset-backed lending market is immense (estimated at $20 trillion) compared to corporate lending at $3 to $4 trillion,[10] but despite its size, it is underpenetrated. Asset-backed lending offers loans secured by cash-flowing assets, such as equipment, real estate, consumer loans and royalties, providing additional protection to lenders through different risk-return profiles. Additionally, the asset lien and amortizing nature of these loans offer further lender protection, making asset-backed lending a potentially attractive option for investors looking for enhanced current income.

These unique characteristics can add diversification to a portfolio of corporate direct lending loans (direct lending) that are instead backed by earnings before interest, taxes, depreciation and amortization (EBITDA) growth, which can enhance overall performance.

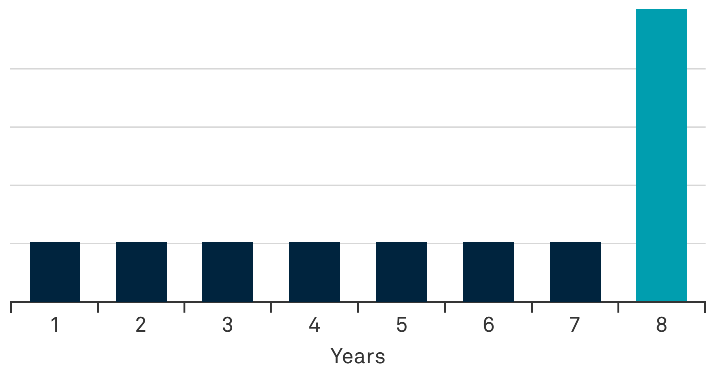
Asset-backed lending is an untapped opportunity and can be a strong complement to traditional direct lending.

## Comparing Investment Cash Flow Profiles

Self-amortization generally helps reduce refinancing risk and limits broader market correlations.

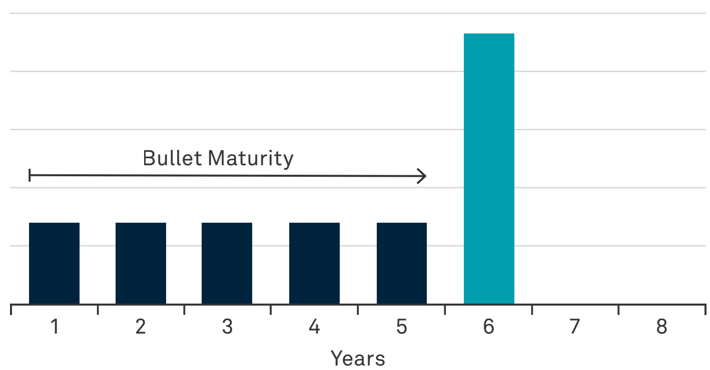
**Private Equity**

Typically receives little-to-no cash flow until a realization event



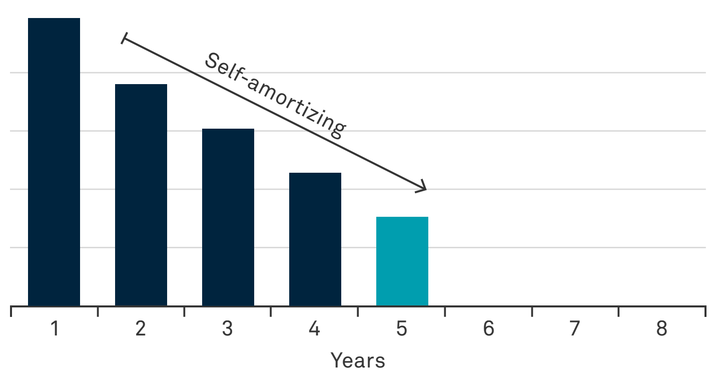

**Corporate Debt**

Typically receives only interest coupons until a realization event




**Asset-Based Finance**

Typically sees a high volume of front-loaded cash flows and does not generally rely on a realization event




For Illustrative Purposes Only.

# THE TAKEAWAY

As banks continue to retreat from traditional lending, we believe private credit is well positioned to fill the gap, providing essential capital to businesses and delivering appealing returns to investors. We expect this trend to persist, with private credit playing a crucial role in the evolving credit landscape.

# 03

## Innovation is Moving from the Boardroom to the Locker Room

# RAPID TECHNOLOGICAL ADOPTION, INTEGRATION & INNOVATION

From a thematic perspective, we see exciting investment opportunities across the technology sector within AI, as well as in sports and live entertainment investing. In particular, the rise of AI is reshaping the investment landscape through an unprecedented opportunity set in private markets. As technology adoption accelerates, the synergy between rapid innovation and substantial AI investments paves the way for transformative advancements, making 2025 an exciting year for investors and businesses. Similarly, sports and live entertainment investing is a nascent but rapidly growing investment opportunity, with the recent loosening of investment restrictions paving the way for a new area of focus for private capital.

# THE TECH REVOLUTION AS A DRIVING FORCE

The tech revolution has been a driving force behind recent venture capital funding and deals, and we expect this trend to continue. In 2024, AI absorbed 37% of all financing and remodeled the venture landscape with a deal total of 17%, including five of the largest deals of the past year.[11] This surge in investment reflects increased investor confidence in AI, positioning it as the most dynamic and promising sector for future growth, in our view.

It should be no surprise that AI's role in this tech revolution is particularly noteworthy. Companies like Databricks and OpenAI secured massive funding rounds of $10 billion[12] and $6.6 billion,[13] respectively, in 2024. These investments underscore the immense potential of AI to drive innovation and deliver substantial returns.

Moreover, supportive fiscal policies, including potential tax incentives and government funding for key sectors like AI, will likely stimulate further investment. Ultimately, these policies create a conducive environment for private equity and venture capital investments, which can drive economic growth and job creation in the process.

# CROSS-SECTOR TECHNOLOGY INTEGRATION & INNOVATION

The speed of technological adoption has risen significantly over the last two decades, creating a pathway for more rapid innovation. Such speed shapes the landscape by enabling innovation to keep pace with the accelerating demands of consumers and businesses. Looking over the last 20 years, we see this leap in adoption is evident with Facebook taking four-and-a-half years to reach 100 million users,[14] to Chat GPT taking only two months to reach the same user base.[15]

This trend is not just evident within AI. Rapid technological adoption is evident across various sectors, such as health care, where integrating advanced technologies has transformed operations and created new opportunities.

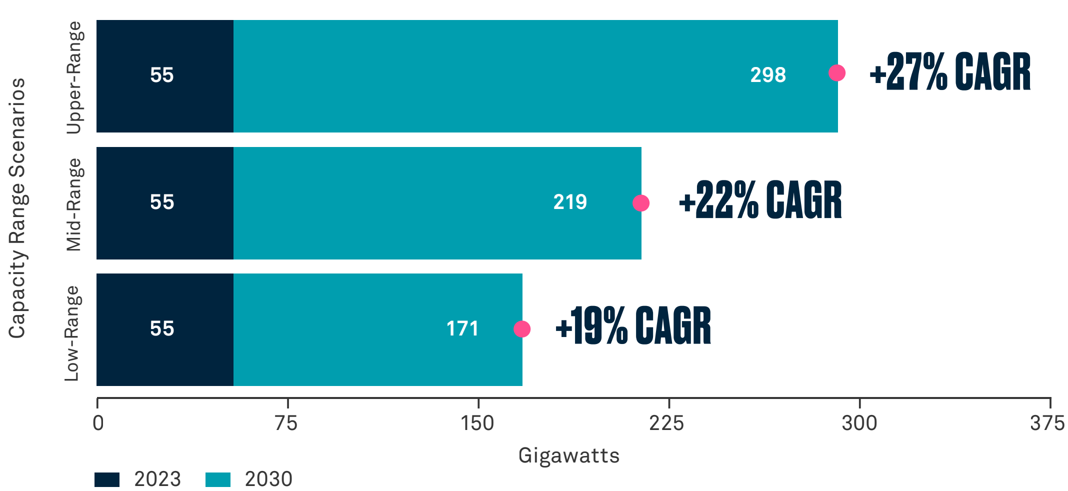
Increased innovation further supports the rationale for companies to stay private longer. By staying private, technology companies can innovate more quickly, aligning growth with technological advancements. Moreover, by remaining private, technology companies can focus on their long-term strategic goals without pressure from public-market scrutiny.

The AI revolution and demand for data centers is creating opportunities in private real assets.

As a result of these trends, we expect to see a significant increase in energy and infrastructure investments driven by growing demand for computing power, which necessitates the expansion of data centers, the development of advanced semiconductor chips, and the creation of robust foundation models and applications, to name a few.

## Data Center Capacity Demand

Gigawatts




Source: *AI power: Expanding data center capacity to meet growing demand*, McKinsey. Data as of October 29, 2024. Three scenarios showing the upper-, low- and midrange estimates of demand, based on analysis of AI adoption trends; growth in shipments of different types of chips (application-specific integrated circuits, graphics processing units, etc.) and associated power consumption; and the typical compute, storage and network needs of AI workloads. Demand is measured by power consumption to reflect the number of services a facility can house. Based on the McKinsey Data Center Demand Model.

Venture capital can provide access to investors to participate in this transformative tech wave by uncovering young, innovative tech startups that are otherwise unavailable in the public equity markets. Such an allocation in early-stage companies can also serve as a complement to investments in more mature large cap tech stocks.

The projected increase in energy and infrastructure investments—facilitated by private market strategies—has the potential to play a crucial role in meeting future computing demands. We believe this alignment of technological needs and investment strategies can lead to sustained growth and innovation across various sectors, ultimately contributing to a more robust and dynamic economy.

We maintain the belief that the most effective way to execute these investments is through private markets, where the investment horizon is long, with active investing at the core. In addition to venture capital and private equity, we believe private infrastructure and real estate funds are well-positioned to capitalize on the outlined opportunity set. These investment strategies can provide the necessary capital and expertise to drive innovation and growth in the energy and infrastructure sectors.

## A NEW PLAYER

### Sports & Live Entertainment Investing

We are also excited about the investment opportunities in sports and live entertainment. While in the past the sports industry has not embraced private capital, it has recently become a viable opportunity with sports leagues, sports teams, franchises and all related entertainment, media and hospitality businesses that go alongside sports loosening their restrictions on investment and ownership. The NFL has recently opened the door for private capital, passing a rule to allow certain private equity funds to be minority investors in NFL teams, and we have seen other professional leagues, such as the NHL, NBA, MLB, WNBA, PGA Tour, Formula 1 and others follow suit.

Opportunities in sports investing span various aspects of the business, including media rights, ticket sales, advertising, venue and stadium improvements, and merchandise, among many others, making this a diversified investment opportunity. Additionally, the rising spotlight on women's sports is further driving the depth of this opportunity. In today's technology-oriented world, sports and live entertainment continue to demand a live audience, where the experience is not easily duplicated later. Sports have also generally been viewed as uncorrelated to economic downturns, with low return volatility given the loyalty of the fan base.

# THE TAKEAWAY

The technology boom, as well as the emergence of sports and live entertainment investing, present dynamic and rapidly evolving opportunities for investors. Within technology specifically, AI is reshaping the investment landscape and paving the way for unique opportunities not only within technology, but also within other sectors such as healthcare and real assets, e.g., data centers. We view sports and entertainment investing as an opportunistic allocation to complement a core private markets allocation.

# 04

## Structural Changes Widen the Playing Field

Innovation is broadening access to investment opportunities and driving structural changes that offer more entry points to a wider investor base.

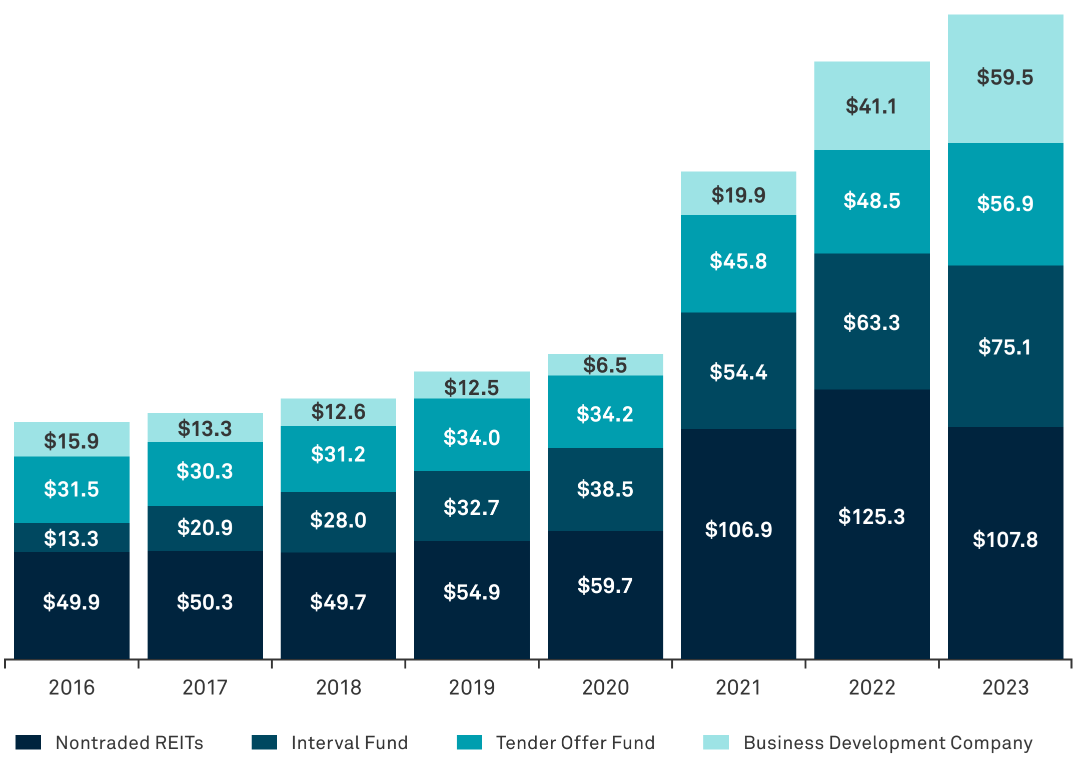
# GROWTH & EXPANDED ACCESS

The alternative investments space—a space once exclusive to institutional investors and high-net-worth individuals—has seen remarkable growth and expansion in recent years. It is our belief that this trend will persist, and numerous studies support our views. A study recently conducted by Preqin found that assets under management (AUM) are expected to surge to $29.2 trillion by 2029, a 74% increase from $16.8 trillion at the end of 2023.[16] Similarly, a BNY study revealed that, as of December 31, 2024, over 80% of respondents anticipated an increase in their allocation to alternatives over the next 12 months, with more than half expecting a significant rise.[17]

This growing appetite for alternative investments is driving innovation within the space and is expanding access and creating potential growth opportunities for a broader investor base. Ultimately, the increasing number of investors seeking the diversification and return potential offered by alternatives further underscores the importance of considering alternatives as part of a diversified portfolio.

Increased demand for alternatives has resulted in greater innovation of platforms/vehicles, making the space more inclusive.

## Growth of Registered Funds (USD billion)




Source: Cerulli. Data as of December 31, 2023.

Innovation within the space has paved the way for a change in the investing landscape, most notably through the introduction of various fund structures designed to meet the needs of a broader range of investors. For example, semi-liquid and evergreen funds have gained popularity, offering more accessible entry points, periodic liquidity and the ability to stay invested indefinitely.

Technology integration has also led to the development of platforms offering a wide range of alternative investment options, making it easier for more investors to participate in private markets and hedge funds and benefit from their potential diversification and return premium. With increasing interest, we believe we will see continued innovation through new investment vehicles and technological platforms.

# THE TAKEAWAY

The traditional 60/40 portfolio no longer fully represents true diversification. Consequently, the alternative investment space has seen significant growth, driven by increasing demand from a broader investor base. We expect this trend to continue, with rapid innovation being the main driver. Within the last year alone, new investment structures and vehicles, along with technology integration, have facilitated the development of platforms offering a wide range of alternative investment options. This has made the space more inclusive and has enabled more investors to benefit from diversification and return potential. However, it is important that investors understand the potential return trade off from utilizing more illiquid structures.

# THE GAME CHANGER

## Diversification can Help Dampen Portfolio Volatility

In an environment characterized by persistent uncertainty and structural changes within public markets, alternative investments can offer uncorrelated sources of return, while helping to moderate portfolio volatility. Various alternative strategies can take advantage of opportunities unavailable in public markets and help mitigate risks associated with the four prevailing themes shaping the alternatives market today.

It is important that investors understand their specific goals and capacity to accept the illiquidity inherent in some alternative investments and identify the appropriate combination of strategies to meet their needs.

To achieve this, it is crucial for investors to partner with a manager or advisor who is committed to conducting comprehensive due diligence.

By collaborating with knowledgeable professionals, investors can better navigate the complex landscape of alternative investments and help ensure that their portfolio aligns with their unique objectives and risk tolerance. Allow our dedicated team of professionals at BNY to assist in unlocking the potential of alternative investments.

# GLOSSARY

**ASSET-BACKED LENDING**: Within private credit, asset-backed lending offers loans secured by cash-flowing assets, such as equipment, real estate, consumer loans, and royalties.

**BUYOUT**: A buyout refers to an acquisition when a private equity firm purchases a controlling or majority stake in an established company.

**GLOBAL MACRO**: Utilizes equities, fixed income, currencies, commodities and derivatives thereof to express views on macroeconomic and political trends while taking advantage of increased volatility and dislocations through long or short positions in a range of asset classes and instrumentws.

**GROWTH EQUITY**: Growth equity is a private equity investment strategy that involves investing in established, privately held, high-growth businesses which are often in the expansion phase and require capital to scale operations or enter new markets.

**HEDGE FUND**: Pooled investment vehicle that holds investment securities, both long and short, and aims to profit from their movements.

**LEVERAGED BUYOUT**: A leveraged buyout refers to an acquisition when a private equity firm purchases a controlling or majority stake in an established company using a significant amount of leverage to finance the acquisition.

**PRIVATE EQUITY**: Funds that utilize illiquid vehicles to acquire businesses with the intention to drive operational improvements over a 4- to 5-year hold period to generate a return with a premium over public markets.

**PRIVATE REAL ASSETS**: Private real assets are tangible, physical investments, such as real estate or infrastructure, that are not traded in public markets.

**PRIVATE CREDIT**: Private credit are loans and debt financing that are provided by non-bank lenders and are privately negotiated, typically outside of public markets.

**SECONDARIES**: Secondaries refers to secondary market transactions where existing investors sell their stakes in private equity funds or other alternative investment vehicles to other investors, often at a discount.

**VENTURE CAPITAL**: Investments in start-ups and young, high-growth businesses where the investor takes a minority stake backing a new business idea or technology, with the potential for generating substantial returns.

# INDEX DEFINITIONS

**BLOOMBERG US AGGREGATE BOND INDEX**: The Bloomberg US Aggregate Bond Index is a broad-based benchmark that measures the investment-grade, US-dollar-denominated, fixed-rate taxable bond market, including Treasuries, government-related and corporate securities, mortgage-backed securities (agency fixed-rate and hybrid adjustable-rate mortgage pass-throughs), asset-backed securities, and commercial mortgage-backed securities.

**BLOOMBERG US CORPORATE HIGH YIELD INDEX**: The Bloomberg US Corporate High Yield Index is an unmanaged, US dollar-denominated, nonconvertible, non-investment-grade debt index. The index consists of domestic and corporate bonds rated Ba and below with a minimum outstanding amount of $150 million.

**HFRI EQUITY HEDGE INDEX**: Equity Hedge strategies maintain positions both long and short in primarily equity and equity derivative securities. A wide variety of investment processes can be employed to arrive at an investment decision, including both quantitative and fundamental techniques; strategies can be broadly diversified or narrowly focused on specific sectors and can range broadly in terms of levels of net exposure, leverage employed, holding period, concentrations of market capitalizations and valuation ranges of typical portfolios. Equity Hedge managers would typically maintain at least 50% and may in some cases be substantially entirely invested in equities, both long and short.

**PREQIN - LARGE BUYOUT INDEX**: The Preqin Large Buyout Index tracks the performance of large buyout funds, typically those with assets under management (AUM) exceeding $1 billion. These funds invest in large companies, often with significant market influence and established operations.

**PREQIN - MID BUYOUT INDEX**: The Preqin Mid Buyout Index focuses on mid-sized buyout funds, which generally have AUM ranging from $100 million to $1 billion. These funds target companies that are smaller than those in the large buyout category but still substantial enough to offer significant growth potential.

**PREQIN - SMALL BUYOUT INDEX**: The Preqin Small Buyout Index measures the performance of small buyout funds, typically with AUM below $100 million. These funds invest in smaller companies, often with high growth potential and opportunities for operational improvements.

**RUSSELL 3000 TOTAL RETURN INDEX**: The Russell 3000® Total Return Index measures the performance of the largest 3,000 US companies, including both the price return and reinvestment of dividends and distributions.

**S&P 500® INDEX**: The S&P 500 Index tracks the performance of 500 of the largest publicly traded companies the United States, covering approximately 80% of the total market capitalization of U.S. public companies. he index is market-capitalization-weighted, meaning that companies with larger market capitalizations have a greater impact on the index's performance.

# ENDNOTES

[1]*Global Private Equity Report 2024*, Bain and Company.

[2]*Global Private Equity Report 2024*, Bain and Company.

[3]*Private Equity—2024 Review and 2025 Outlook, Andrew J. Nussbaum, Steven A. Cohen, and Igor Kirman, Wachtell, Lipton, Rosen & Katz*, Harvard Law School Forum on Corporate Governance, January 24, 2025.

[4]*The 2024 Annual US PE First Look*, PitchBook Data, Inc., December 31, 2024.

[5]*Strong US IPO Growth in 2024 Creates Momentum for the Year Ahead*, EY, January 15, 2025.

[6]*Global Private Equity Report 2024*, Bain and Company.

[7]*Global Secondary Market Review*, Jefferies, January 2025.

[8]*Investor Interest: Allocator Plan for Hedge Funds and Beyond in 2025*, HedgeWeek, December 2024.

[9]Federal Deposit Insurance Corporation, as of September 30, 2022.

[10]Apollo Asset-Backed Finance Overview, Apollo Global Management, March 2024.

[11]Webinar: *Venture Trends for 2025*, CB Insights, January 10, 2025.

[12]*Databricks is Raising $10B Series J Investment at $62B Valuation*, Databricks, December 17, 2025.

[13]*OpenAI Valued at $157 Billion After Closing $6.6 Billion Funding Round*, Antonio Pequeño IV, Forbes, October 2, 2024.

[14]*Facebook's first 15 years were defined by user growth*, Vox, February 2, 2025.

[15]*ChatGPT sets record for fastest-growing user base – analyst note*, Reuters, February 2, 2025.

[16]*The Future of Alternatives* 2029, Preqin.

[17]*Wealth Trends in Alternatives: Optimizing Opportunities*, BNY Pershing.

# DISCLOSURES

Published June 2025.

Alternative Investments, such as private equity and hedge funds, are speculative and involve a high degree of risk. There can be no assurance that the fund's investment objective will be realized or that appropriate investments may be identified. An investor could lose all or a substantial portion of their investment. Private funds are exempt from registration with the Securities Exchange Commission and are not subject to the same level of regulatory scrutiny as registered investments such as mutual funds. Certain alternative investments require tax reports on Schedule K-1 to be filed which likely requires investors to obtain extensions for filing income tax returns each year. Private fund investments do not provide daily liquidity or pricing. There is no secondary market for private fund interests nor is one expected to develop. Investments may be subject to quarterly or annual liquidity and gates on the percentage of the investment that can be withdrawn. In some cases, redemptions have been suspended indefinitely. Private equity funds typically provide no liquidity for five to ten years and must be considered only for long term investment. The funds' underlying investments may be very thinly traded, or no market may exist. Managers or their administrators may assign values to securities and other instruments for which there is no readily available market or third party pricing, or when the manager believes the third party pricing does not accurately reflect the value of those securities. Private funds may not be required to provide periodic pricing or valuation information to investors. Performance may be volatile as underlying managers may employ leverage and other speculative investment practices that may increase the risk of investment loss, and adherence to risk control mechanisms does not guarantee investment returns. Past performance is no guarantee of future results and the funds present "tail risk," an unexpected downside performance period due to extreme market volatility which could not be anticipated from a fund's prior performance. Additionally, high fees and expenses of a private fund (and at both levels in a fund of funds) may offset an investor's profits. A fund may be subject to concentration risk due to a lack of manager and/or strategy diversification. Investors should review the private placement memorandum for each fund under consideration for a complete list of the potential risks of an investment in the fund and strategy. Investors should consult with their investment, legal and tax professionals before making an investment.

**FOR INSTITUTIONAL, PROFESSIONAL, QUALIFIED INVESTORS AND QUALIFIED CLIENTS. FOR GENERAL PUBLIC DISTRIBUTION IN THE U.S. ONLY.**

This material should not be considered as investment advice or a recommendation of any investment manager or account arrangement, and should not serve as a primary basis for investment decisions. Any statements and opinions expressed are those of the author as at the date of publication, are subject to change as economic and market conditions dictate, and do not necessarily represent the views of BNY. The information has been provided as a general market commentary only and does not constitute legal, tax, accounting, other professional counsel or investment advice, is not predictive of future performance, and should not be construed as an offer to sell or a solicitation to buy any security or make an offer where otherwise unlawful. The information has been provided without taking into account the investment objective, financial situation or needs of any particular person. BNY is not responsible for any subsequent investment advice given based on the information supplied. This is not investment research or a research recommendation for regulatory purposes as it does not constitute substantive research or analysis. This information may contain projections or other forward-looking statements regarding future events, targets or expectations, and is only current as of the date indicated. There is no assurance that such events or expectations will be achieved, and actual results may be significantly different from that shown here. The information is based on current market conditions, which will fluctuate and may be superseded by subsequent market events or for other reasons. References to specific securities, asset classes and financial markets are for illustrative purposes only and are not intended to be and should not be interpreted as recommendations. Charts are provided for illustrative purposes only and are not indicative of the past or future performance of any BNY product. Index performance does not reflect any management fees, transaction costs or expenses. Indexes are unmanaged and one cannot invest directly in an index. Information and opinions presented have been obtained or derived from sources which BNY believed to be reliable, but BNY makes no representation to its accuracy and completeness. BNY accepts no liability for loss arising from use of this material.

**Past performance is no guarantee of future results. All investments involve risk including loss of principal.**

**Not for distribution to, or use by, any person or entity in any jurisdiction or country in which such distribution or use would be contrary to local law or regulation.** This information may not be distributed or used for the purpose of offers or solicitations in any jurisdiction or in any circumstances in which such offers or solicitations are unlawful or not authorized, or where there would be, by virtue of such distribution, new or additional registration requirements. Persons into whose possession this information comes are required to inform themselves about and to observe any restrictions that apply to the distribution of this information in their jurisdiction.

**Issuing entities**

**This material is only for distribution in those countries and to those recipients listed, subject to the noted conditions and limitations: For Institutional, Professional, Qualified Investors and Qualified Clients. For General Public Distribution in the U.S. Only. • United States**: by BNY Mellon Securities Corporation (BNYSC), 240 Greenwich Street, New York, NY 10286. BNYSC, a registered broker-dealer and FINRA member, has entered into agreements to offer securities in the U.S. on behalf of certain BNY Investments firms. **• Europe (excluding Switzerland)**: BNY Mellon Fund Management (Luxembourg) S.A., 2-4 Rue EugèneRuppertL-2453 Luxembourg. **• UK, Africa and Latin America (ex-Brazil)**: BNY Mellon Investment Management EMEA Limited, BNY Mellon Centre, 160 Queen Victoria Street, London EC4V 4LA. Registered in England No. 1118580. Authorised and regulated by the Financial Conduct Authority. **• South Africa**: BNY Mellon Investment Management EMEA Limited is an authorised financial services provider. **• Switzerland**: BNY Mellon Investments Switzerland GmbH, Bärengasse 29, CH-8001 Zürich, Switzerland.

# DISCLOSURES

• **Middle East**: DIFC branch of The Bank of New York Mellon. Regulated by the Dubai Financial Services Authority. • **Singapore**: BNY Mellon Investment Management Singapore Pte. Limited Co. Reg. 201230427E. Regulated by the Monetary Authority of Singapore. • **Hong Kong**: BNY Mellon Investment Management Hong Kong Limited. Regulated by the Hong Kong Securities and Futures Commission. • **Japan**: BNY Mellon Investment Management Japan Limited. BNY Mellon Investment Management Japan Limited is a Financial Instruments Business Operator with license no 406 (Kinsho) at the Commissioner of Kanto Local Finance Bureau and is a Member of the Investment Trusts Association, Japan and Japan Investment Advisers Association and Type II Financial Instruments Firms Association. • **Brazil**: ARX Investimentos Ltda., Av. Borges de Medeiros, 633, 4th floor, Rio de Janeiro, RJ, Brazil, CEP 22430-041. Authorized and regulated by the Brazilian Securities and Exchange Commission (CVM). • **Canada**: BNY Mellon Asset Management Canada Ltd. is registered in all provinces and territories of Canada as a Portfolio Manager and Exempt Market Dealer, and as a Commodity Trading Manager in Ontario. All issuing entities are subsidiaries of The Bank of New York Mellon Corporation.

**BNY COMPANY INFORMATION**

**BNY Investments** is one of the world's leading investment management organizations, encompassing BNY's affiliated investment management firms and global distribution companies. BNY is the corporate brand of The Bank of New York Mellon Corporation and may also be used to reference the corporation as a whole and/or its various subsidiaries generally. • **Mellon Investments Corporation** (MIC) is a registered investment advisor and subsidiary of The Bank of New York Mellon Corporation. MIC is composed of two divisions: **Mellon**, which specializes in index management, and **Dreyfus**, which specializes in cash management and short duration strategies. • **Insight Investment** - Investment advisory services in North America are provided through two different investment advisers registered with the Securities and Exchange Commission (SEC) using the brand Insight Investment: Insight North America LLC (INA) and Insight Investment International Limited (IIIL). The North American investment advisers are associated with other global investment managers that also (individually and collectively) use the corporate brand Insight. Insight is a subsidiary of The Bank of New York Mellon Corporation. • **Newton Investment Management** - "Newton" and/or "Newton Investment Management" is a corporate brand which refers to the following group of affiliated companies: Newton Investment Management Limited (NIM), Newton Investment Management North America LLC (NIMNA) and Newton Investment Management Japan Limited (NIMJ). NIMNA was established in 2021, NIMJ was established in March 2023. NIM and NIMNA are registered with the Securities and Exchange Commission (SEC) in the United States of America as an investment adviser under the Investment Advisers Act of 1940. Newton is a subsidiary of The Bank of New York Mellon Corporation. • **ARX** is the brand used to describe the Brazilian investment capabilities of BNY Mellon ARX Investimentos Ltda. ARX is a subsidiary of The Bank of New York Mellon Corporation. • **Walter Scott & Partners Limited** (Walter Scott) is an investment management firm authorized and regulated by the Financial Conduct Authority, and a subsidiary of The Bank of New York Mellon Corporation. • **Siguler Guff** - The Bank of New York Mellon owns a 20% interest in Siguler Guff & Company, LP and certain related entities (including Siguler Guff Advisers LLC). • BNY Mellon Advisors, Inc. (BNY Advisors) is an investment adviser registered as such with the U.S. Securities and Exchange Commission ("SEC") pursuant to the Investment Advisers Act of 1940, as amended. BNY Advisors is a subsidiary of The Bank of New York Mellon Corporation.



**NOT FDIC INSURED | NO BANK GUARANTEE | MAY LOSE VALUE |**



BMAIAM-734867-2025-05-06 | BABR-737942-2025-05-09 | GU-634-30 June 2026