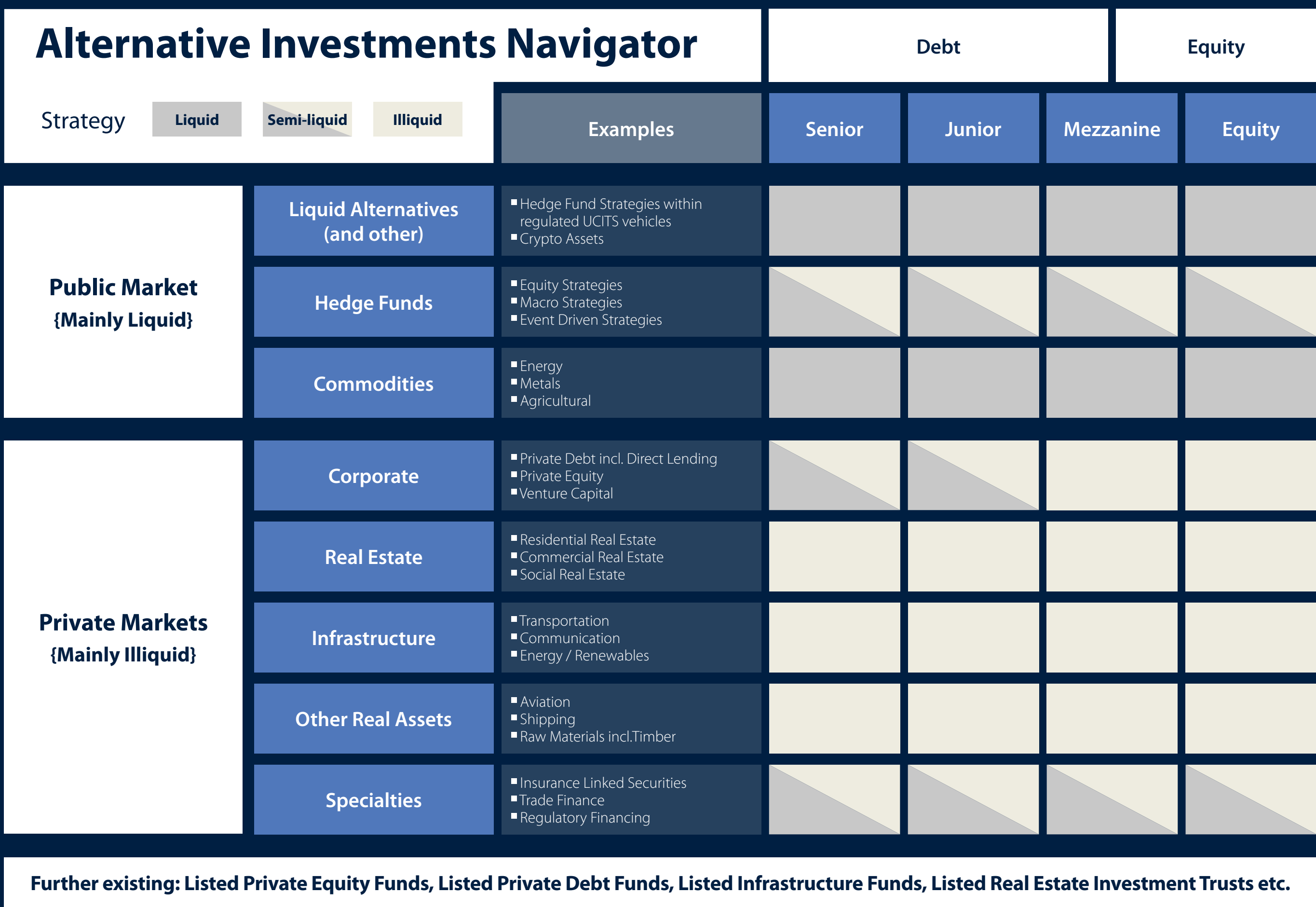
The Alternative Investments Meta Outlook 2024

January 2024

It's that time of the year again, when all Wall Street banks and asset managers unveil their investment and macro outlooks for the new year. In this review, we'll delve into the latest analyses covering various scenarios, opportunities, and risks in private markets. We'll start our meta outlook by summarizing key takeaways from the houses macro outlooks, so you don't have to read them all. Then we shift our focus to alternative asset classes and we back it up with some interesting graphics.

Most investment outlooks from banks and asset managers are cautiously anticipating a similar middle-of-the-road scenario in 2024: They foresee a moderated economic slowdown, interest rates finally starting to dwindle with central banks pivot to easier policies preparing the ground for a late-year rebound. In the nature of things, most outlooks are fitted to the institutions existing offerings. The main message of the somewhat more neutral houses is: Stay flexible in your approach.

However, it's worth noting that if the consensus on Wall Street is often proven wrong, the year ahead might present investors with either an unprecedented rally or a sell-off for the ages, as Bloomberg aptly summarizes.



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Goldman Sachs "The Hard Part Is Over"

- The Great Escape from a low-yield equilibrium and liquidity trap portrays a shift to a more normal investing environment since real expected returns are firmly positive for the year 2024, supported by rising risk-free rates in nominal and real terms in 2023.

- In a "higher for longer" yield-scenario, indicating prolonged economic conditions, there is an expectation that strong-balance-sheet and larger companies may continue to outperform.

- Global GDP growth is estimated at 2.7% for 2024, while inflation- and unemployment rates settle somewhere around 2-2½% and 5% (below pre-pandemic level), respectively.

- Post-GFC environment of low inflation, zero policy rates, and negative real yields is seen as escaping, nevertheless rate cuts probably won't arrive until 2024H2.

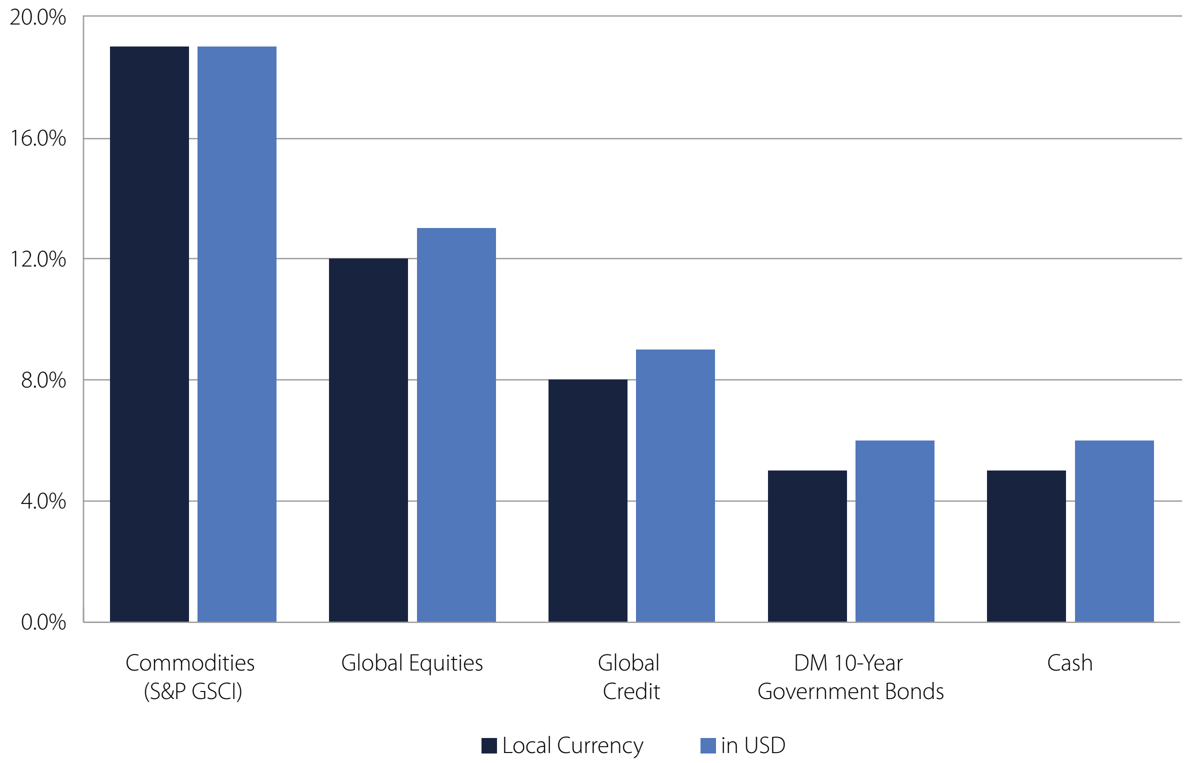
- Brighter prospect of forward returns on fixed income assets for investors in case of the existence of an equilibrium at the pre-GFC interest rate level, which is not applied to Europe due to the possibility of emerging a sovereign distress.

- The US Dollar is likely to maintain its strength during the year 2024.

- The probability of a recession in the U.S. is down to 15% in the Goldman Sachs forecast while other claims are significantly different (the median forecaster still estimates a probability of around 50%).

- Cash return remains high while returns on other asset classes (e.g. Core Assets) are significantly higher. Thus, a balanced asset mix is recommended.

2024 Returns: Goldman Sachs Forecast



Source: Bloomberg, Datastream, Bloomberg-Barclays, ICE-BAML, iBoxx, Goldman Sachs Global Investment Research

Barclays “2024 Outlook: A Year of Hard Choices”

- Although the conservative forecast for the global economic growth is 2.4%, for the Eurozone economy being close to stagnation, a 0.3% growth in GDP in 2024 is anticipated. Moreover, the recovery in Germany should be minimal, with the country’s GDP set to expand by just 0.2% in 2024, while the economy of Spain outgrows its peers.

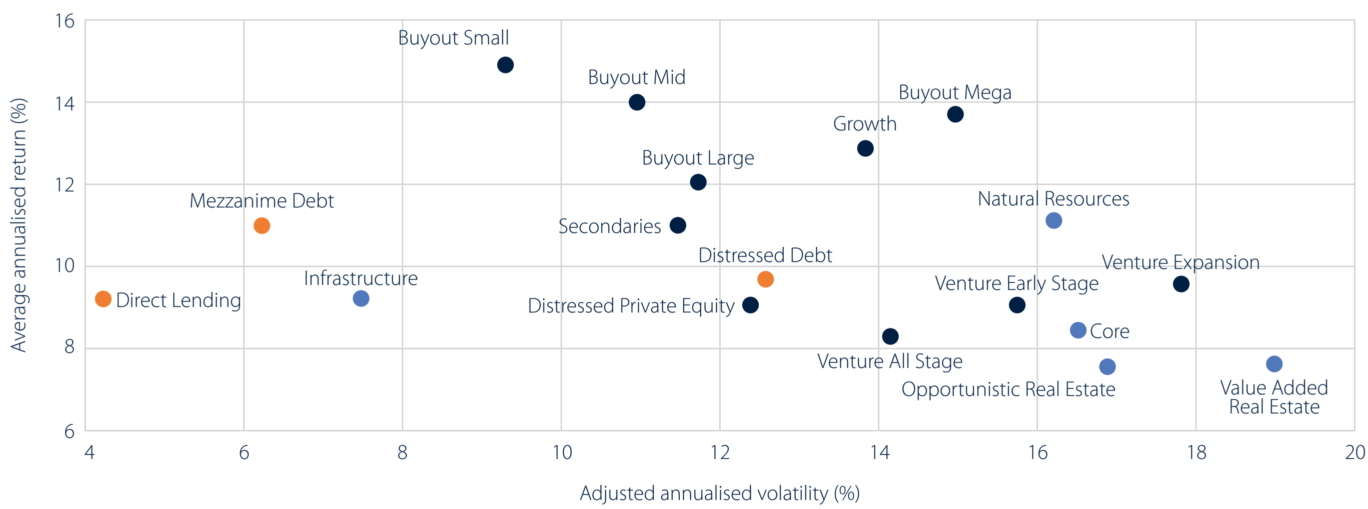
- One of the challenges facing the European Central Bank is the wide disparity of inflationary pressures evident among EU members making it difficult to fine-tune monetary policy and increases the risk of the authorities opting a wrong policy.

- Overall, the Eurozone inflation should ease in 2024, averaging 2.8%, nearly half of that seen in 2023. While this is still above the ECB’s 2% target, the central bank may be willing to tolerate this overshoot in the context of a bleak growth outlook and weak consumption, despite historically strong wage growth. Furthermore, inflation in most large economies is expected to dip below 3% by the end of 2024.

- **ALTERNATIVE TRADING STRATEGIES (ATS)**
  - The ATS universe presents limited opportunities, as the cost-benefit trade-off can be challenging.
  - Strategies providing diversification benefits due to their low correlation with equity markets are preferred.

- Two risks must be taken into account by successful investors: The climate change risk, and the one from within and how detrimental investor psychology can be.

Multi-asset class portfolio views	Cautious		Neutral		Positive
Cash and short duration bonds				■	
Fixed income			■		
Developed market government bonds			■		
Investment grade bonds				■	
High yield bonds		■			
Emerging market bonds		■			
Equities				■	
Developed market equities				■	
Emerging market equities			■		
Other assets		■			
Alternative trading strategies		■			
Commodities			■		



Sources: Bloomberg, Preqin, Barclays Private Bank. Data accessed in October 2023, last observation point June 2023

Fidelity "Outlook 2024: Research Powered Investment"

- Remarkable changes across economies and markets, combined with a year of political uncertainty, make forecasting unusually difficult in 2024. Therefore, Fidelity offers four potential paths the world could take, each assigned with its own probability.

- Fidelity's preference on Inflation-linked bonds, and optimistic 'Goldilocks-zone' for investors seeking profit in **real estate**, assuming that a small amount of inflation is positive for real estate, would happen in the highest probable scenario (Cyclical Recession with 60% probability). In the face of a cyclical economic downturn, it is essential to adopt a cautious strategy in choosing credit to prevent over-leveraging of companies. The emphasis is on selecting companies where one can actively shape and influence the structure and documentation of transactions.

- The "Soft Landing" scenario (20% probability) would benefit all sectors especially mid-caps as well as less defensive firms, but it is less likely for the latter ones.

- The "Balance Sheet Recession" scenario would be marked by a deep and prolonged downturn across developed and emerging economies (10% probability). The concept of a green premium is an asset´s sustainability feature which has been gifted to **real estate** market increasing the demand even in a balance sheet recession scenario. In this scenario, 'safe haven' currencies and gold would be appealing.

- Investment grade and government bonds as well as the **real estate** market would face a dangerous challenge in the "No Landing" scenario (10% probability). The floating rate nature of **private credit** products would be attractive as a potential hedge against inflation.

Sectors / Scenarios	Energy	Finan-cials	Health Care	Industri-als	Infor-mation Techno-logy	Materials	Con-sumer Discre-tionary	Con-sumer Staples	Telecoms	Utilities	Real Estate
60% Cyclical Recession	– –	– –	– –	– –	– –	– –	– –	+ +	–	=	=
20% Soft Landing	=	–	=	+	=	+	+	=	=	=	=
10% Balance Sheet Recession	– –	– –	– –	– –	– –	– –	– –	+ +	=	+	+
10% No Landing	+ +	=	=	=	+	+	+	=	=	–	=

Source: Fidelity Outlook 2024

Neuberger Bermann *"Ten for 2024"*

- In 2024, earnings challenges from 2023 will persist amid global uncertainties and diminishing liquidity, prompting a renewed focus on valuations, earnings quality, and business resilience. This is expected to lead to significant performance differences across sectors and between active and passive management.

- In Neuberger Berman's view, the sooner investors consider higher-rates-for-longer into their credit analyses, the sooner they are likely to make what they regard as the necessary portfolio adjustments.

- Rising supply of government bonds and high cash yields are likely to change prominently in 2024. Also, they observe a smooth rise in idiosyncratic defaults.

- Historically, the economy has been able to generate healthy growth with rates at these levels, supported by generally strong balance sheets and maturities several years away. This dynamic contributes to the strength of a range of fixed income credit markets.

- Excessive savings built through the pandemic is running dry. Therefore, it is anticipated that inflation will likely remain above targets and rates will remain high. Although the real growth rate declines, experiencing stagflation extremes of 1970´s is far from their expectation which is tricky for long-dated bonds and interest rate-sensitive equities.

- In the alternative investment outlook, constrained capital presents opportunities for capital providers, especially in private markets where exit bottlenecks are driving **private equity** firms to focus on maximizing growth in existing companies. The demand for investor capital is rising for **secondaries**, co-investments, and **private credit**, making these areas attractive through 2024.

- Meanwhile, the real estate sector is experiencing significant shifts, marked by with cost-of-capital increases and structural changes creating divisions between strong and weak players, offering opportunities in real estate credit markets amidst market volatility.

- Economic strains may create long-term value opportunities in inflation-sensitive real assets, including both liquid markets (such as certain **commodities**) and illiquid markets (such as **real estate**).

J.P. Morgan "The Last Leg on the Long Road to Normal"

- Global economic growth should be less divergent in 2024, but central banks apply different methods to battle the inflation which may lead to the USD weakness.

- There is an approachable soft-landing scenario with 2% growth, 2% inflation, and 4% unemployment rates.

- Alternative Investments can fulfill the results and benefits that investors seek in their portfolios, such as inflation hedging, alpha, and diversification through leaning on active management and taking some risk.

- Although Continued elevated interest rates may present challenges for beta investments, they create opportunities for alpha producers, such as stock pickers and private equity managers, to excel in a more complex market environment moving forward. Still, quality and selectivity will be critical in both **public** and **private equity**.

- **Real estate**, a proven inflation hedge, can pass on higher costs through increased rents. **Public REITs**, having already repriced, stand as an early option for deploying capital.

- Asset allocation strategies should adapt to the mantra of "expect the unexpected," considering factors like lower interest rates, equity market dynamics, and the geopolitical climate. Infrastructure, real estate, and alternative assets are seen as potential buffers against market volatility, but caution is advised due to the possibility of repricing in certain private markets.

Franklin Templeton "Flexibility, Resilience, and Opportunity"

- Franklin Templeton expects markets to experience many storms and forecasts an economic slowdown over the year 2024.

- Security and Defence spending, both in the United States and globally, are likely to increase in almost any political outcome, given the disappearance of the "peace dividend" in Europe, the Middle East, and the Far East.

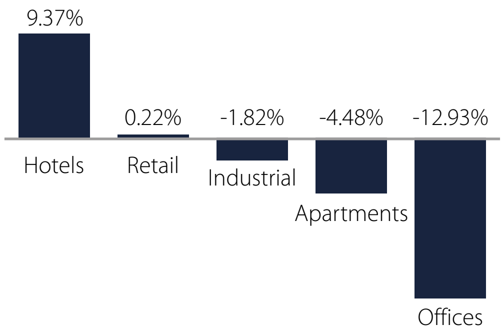
- Investors should carefully assess market pricing and look for opportunities, especially in areas where valuations have reached distressed levels. In portfolio construction, the lessons from 2022 emphasize the importance of balance and diversification, with the expectation that 2024 will reward such strategies in a scenario of weaker growth or recession.

- In the light of prevailing conditions, a prudent approach involves prioritizing the resilience of investment portfolios which entails focusing on higher-quality stocks and corporate credits as well as being prepared for selective risk-taking to choose a well-balanced mix of stocks, bonds, and alternatives.

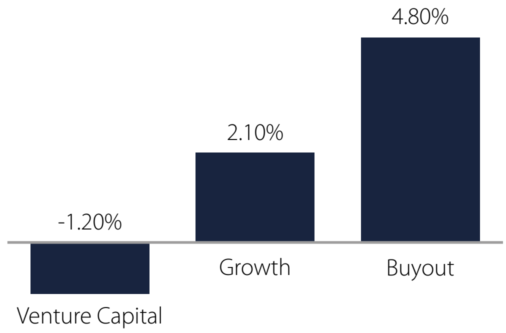
- Shifting dynamics, such as demographics, technology, deglobalization, housing affordability, and climate change, influence the best opportunities in **commercial real estate**. Sectors like **industrial warehouses, life sciences, self-storage,** and **multi-family real estate** may be more appealing due to low vacancies and higher demand.

- Equity allocations are advised to lean towards sectors and regions overlooked amid the heavy concentration on the AI theme. Additionally, alternatives such as **private real estate**, despite potential weaknesses in certain areas, offer exposure to market segments with secular growth stories aligned with broader economic drivers anticipated for the future.

2023 Year-to-Date Returns Across Private Real Estate Categories



2023 Year-to-Date Total Returns Across Private Equity (PE) Categories



KKR "Glass Half Full"

- Within **private credit**, KKR analysts suppose that asset-based lending is becoming more compelling. They claim many parts of high yield are starting to become more competitive versus levered loans. The overall perspective is that the next twelve months will present opportunities within credit assets, with a potential to enhance returns in **private credit** by incorporating a 'liquid sleeve' into portfolios, especially if refinancings slow and maturities extend.

- In the broader context, the outlook suggests that entering a lower return environment where fixed income coupons play a crucial role in overall total returns, contrasting with the past decade. Prioritizing operational improvement narratives, particularly within **private equity**, and favouring capital structures with substantial equity cushion, especially in preferred, convertible, or convertible preferred forms, are emphasized.

- Additionally, advocating for collateral-based cash flows tied to nominal GDP growth is highlighted, with **real estate credit, infrastructure**, and **asset-based finance** identified as intriguing opportunities.

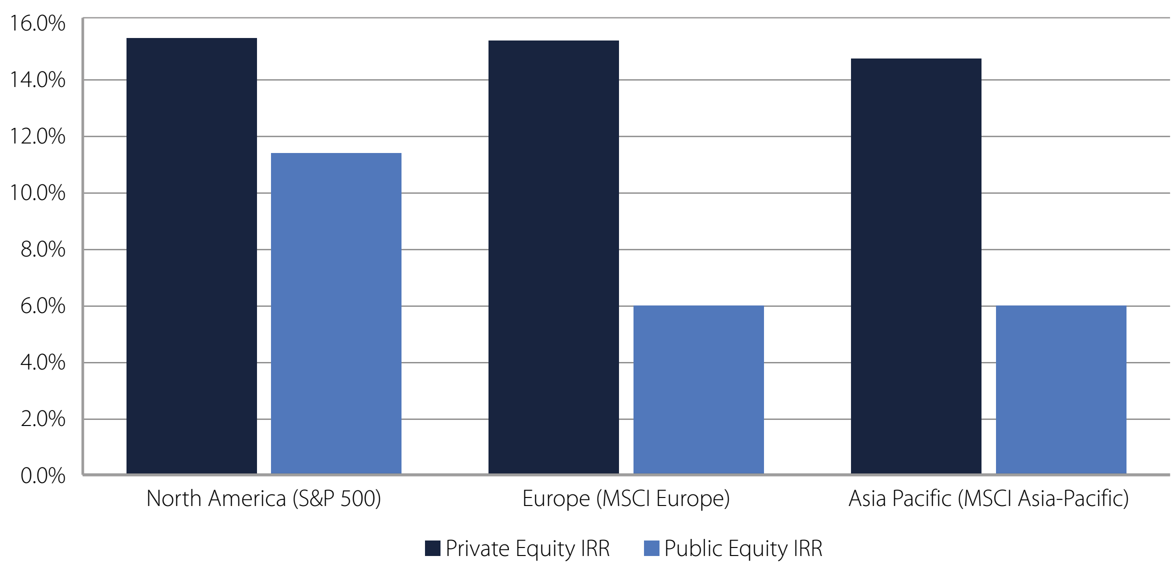
- **Artificial Intelligence**: While acknowledging the long-term potential of AI, they believe some of the most compelling opportunities in this area may be found beyond mega-cap software companies.

- **Industrial Automation**: Companies are increasingly utilizing technology and automation to enhance efficiency and productivity, addressing challenges posed by evolving demographics and the complexities of cross-border connectivity.

- **Decarbonization**: The rise of AI and evolving energy forms will reshape energy distribution, presenting opportunities for **infrastructure** and certain **private equity** sectors.

↓ Macro Headwinds	Suboptimal Supply Chain	Aging Demographics	A Messy Energy Transition	Heightened Geopolitics	Government Indebtedness		
↑ Macro Tailwinds	Industrial Automation	Intra-Asia Connectivity	Labor Productivity	Data/Digitalization	Infra Super Cycle	Security of Everything	Decarbonization

Private vs. Public Equities IRR Last 20 Years as of 1Q23



Source: KKR Outlook for 2024

BlackRock "2024 Global Outlook"

- According to *BlackRock*, inflation is anticipated to be structurally higher, leading to a key role for **real estate** and **infrastructure** in strategic portfolios.

- To prevent inflation resurgence, central banks may need to restrain economic activity by implementing higher policy rates. The challenging trade-off between inflation and recession has complicated decision-making for central banks, probably leading to higher policy rates.

- Their inflation view keeps them maximum overweight inflation-linked bonds. They still like income within private markets. And within DM government bonds, they still prefer short-and medium-term maturities. Strategically, it is more of an income story.

- Adopting a more dynamic investing approach in the new regime would have likely outperformed a buy-and-hold strategy to a much greater extent than before the pandemic.

- They anticipate **private credit** gaining market share as banks retreat, offering attractive returns relative to credit risk.

- As capitalization rates and yields surged, they expect cap rates for both **private** and **public real estate** to rise, too.

- Some **REITs** could be more resilient to a weaker economy as it's key to go beyond a simple mantra of buying real estate in inflationary times.

- **Real estate** valuations have adapted differently to the new regime. Structurally higher inflation should benefit real assets in strategic portfolios in the long term.

Generali Investments *"2024 Key Investment Themes"*

- With growth likely at its weakest stage, a recovery is expected in the second half of 2024 which should benefit European credit. The current inversion of the Eurozone yield curve reflects market expectations for future rate cuts.

- For multi-asset investors, one crucial element may be back in favour: decorrelation between asset classes, the basis for the sacrosanct rule of diversification.

- In addition, *Generali* believes that much higher yields will be positive for multi-asset strategies, which have benefited from high carry this year and which they expect to continue into 2024.

- The equity market's reaction will depend on the resilience of economic growth. If inflation slows while economic activity remains low but positive, investors may still find favourable conditions for certain market segments.

- The outlook for liquid alternatives in 2024 is positive, particularly for diversified multi-strategy **hedge funds**. These alternative assets have demonstrated their value by providing appealing diversification advantages compared to traditional 60/40 portfolios, along with delivering premium returns over cash.

- In essence, diversified multi-strategy funds present an attractive, all-weather investment approach in the realm of alternative assets. This approach is expected to yield superior risk-adjusted returns, showcasing low correlation with standard 60/40 portfolios and other **hedge funds**.

- In **private debt**, fundraising changes, economic uncertainties, energy transition and AI integration will be key drivers of challenges and opportunities in 2024. For investors seeking higher yields with reduced leverage risk, floating rate debt is particularly attractive through 2024, as it can mitigate duration risk and portfolio volatility in a period of higher euro interest rates. Small and medium-sized enterprises that can address the needs of rapidly changing economies.

- **Hotel** sector, **logistics** sector, **real estate debt** market, and **offices** are main attractive investment opportunities in terms of risk-adjusted returns for 2024 in which sustainability is playing a vital role to influence decision making and implementing net zero carbon in the long term.

Invesco "The Big Picture: Global Asset Allocation 2024 Outlook"

- Within private assets, **direct lending** has been attractive given the asset's high yields, floating-rate nature, and favourable lender terms and protections.
- The potential for modest default rates in 2024 could also set the stage for distressed lending to outperform.
- Invesco favours **commercial real estate** lending as a method to access real asset markets, which could fill a gap for financing left after recent regional banking failures. Higher interest rates may continue to pressure real estate assets; however, they find fundamentals improving as there are pockets of strength in various sectors and markets.
- Considering **private equity**, they prefer assets that focus on cash transactions due to the opportunities for growth equity firms to provide capital to private companies that would historically have looked to access the initial public offering market.
- They also recognized that, given the increase in geopolitical risks, gold could have periods of strong performance.

Alternative Asset Class	Index	Expected geometric return %	Expected arithmetic return %	Expected Risk %	Arithmetic return to risk ratio
Global Infra	DJ Brookfield Global Infra	9.6	10.6	14.8	0.72
Global REITs	FTSE EPRA/NAREIT Developed Index	6	7.5	18.7	0.4
Hedge Funds	HFRI HF Index	4.4	4.8	6.8	0.55
Commodities	S&P GSCI	5.6	8.1	23.8	0.34
Agriculture	S&P GSCI Agriculture	5.4	7.4	21.3	0.35
Energy S&P GSCI Energy	S&P GSCI Energy	6.2	11.9	37	0.32
Industrial Metals	S&P GSCI Industrial Metals	6.1	8.7	24.1	0.36
Precious Metals	S&P GSCI Precious Metals	1.1	2.7	18.4	0.15

Table: Estimates as of 30 September 2023, as published in Long-Term Capital Market Assumptions (November 2023).
Source: Invesco Investment Outlook 2024

NATIXIS "2024 Institutional Outlook Survey"

- The prominent concern in 2024 is the unpredictability of random events aroused by political actors. This tops the list of worries for institutional investors, posing a challenge as such risks are hard to foresee and incorporate into plans.

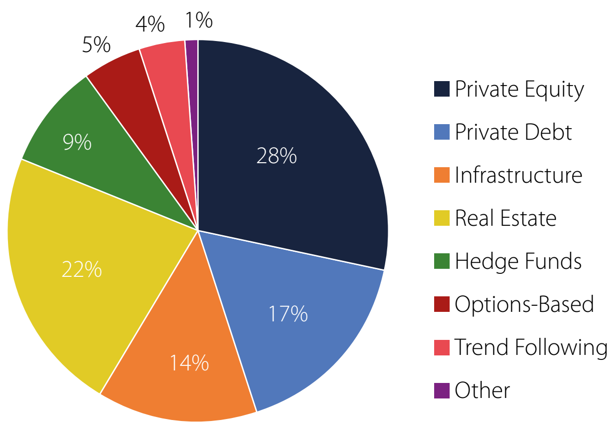
- Institutional investors overwhelmingly plan to increase positions in alternative investments. The ratio of those adding surpasses those trimming, often by a two-to-one margin.

- Institutions maintain a strong interest in private assets, with 66% noting a significant gap compared to public assets. However, popularity has led to challenges in deal sourcing, prompting increased due diligence efforts. Rising interest rates and concerns about overregulation impact the role of private assets, while tech-related opportunities and targeted **real estate** segments emerge as focal points for 2024.

- Despite significant Bitcoin gains in 2023, institutions remain cautious about **cryptocurrency**.

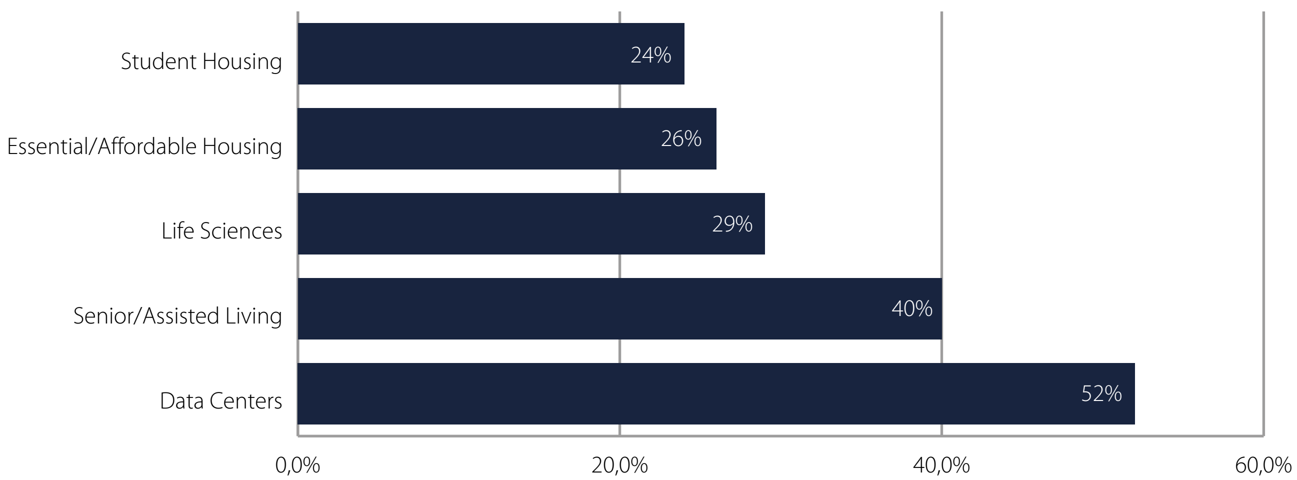
Institutions Working from a Broad Pallete of Alternatives

Current Allocations



Alternative Allocations	Increase	Maintain	Decrease
Real Estate	29%	50%	21%
Absolute Return	26%	62%	12%
Private Equity	39%	44%	17%
Private Debt	45%	43%	12%
Commodities	32%	51%	17%
Gold	30%	51%	20%
Infrastructure	40%	50%	11%
Hedge Funds	23%	59%	19%
Cryptocurrencies	14%	57%	30%
Options-Based Strategies	20%	69%	11%
Trend Following	21%	68%	12%

Best Private Asset Opportunities



Source for all three Charts: Natixis 2024 institutional outlook survey

HSBC "Opportunities in a Complex World"

- HSBC's analysis reflects that the USD's strength in 3Q23, influenced by the US economic resilience to shocks, yield advantage, and geopolitical uncertainties, may persist into 2024 while investors prefer other currencies with higher significant real yields and strong fundamentals.

- Higher interest rates are causing a decline in **real estate** values in developed markets, impacting property yields. Despite resilient occupier fundamentals, the **retail sector** faces ongoing e-commerce challenges, prompting expectations of further price corrections, particularly in a recession.

- **Hedge fund** portfolios demonstrated effective diversification, aligning with their clients' enduring pursuit of varied sources of returns. Their positive outlook extends to macro managers, equity market neutral strategies, low net exposure equity long/short approaches, as well as multi-strategy and multi-PM managers.

- They consider **private credit** as a popular asset class for investors as a result of the PE-gap between supply and demand.

- In overall, they expect a normalisation of PE-distributions to investors over the medium term as well as thriving the **private equity** asset in 2024 as pricing continues to stabilize.

Dechert LLP *"Global Private Equity Outlook"*

- There's clearly distress in the **commercial real estate** market, with some prominent investors turning over prime properties to lenders.

- **Private equity firms** seek certainty over the unknown, relying on willing buyers to realize returns, initiate fundraisings, and maintain their investment cycles. The guarantee of successful transactions is not assured in this dynamic landscape. Thus, **four key takeaways** are as followed:
  1. Enhancing portfolio resilience using prioritizing growth and de-risking. De-leveraging existing holding.
  2. Thinking creatively about which structures such as earn-outs, vendor financing and other deferred purchase price mechanisms are currently being actively employed to finalize success.
  3. Applying **ESG** as a value lever to companies has the potential to generate value by fostering new revenue streams, reducing costs, enhancing access to finance, and boosting employee engagement and productivity.
  4. Seize opportunities in public markets: **PE** funds should capitalize on the attractiveness of take-privates in undervalued markets like Europe and Asia, leveraging the substantial dry powder resulting from the deal slowdown since 2022.

- Not only is **debt financing** harder to secure on favourable terms, but there is also less new equity entering the system for investments. A lack of exits has caused distributions to slow, leaving LPs with less cash to recycle into new funds. Competition for capital among GPs is fierce, a reality flagged by their survey respondents, who are concerned about commitments flowing to other funds, with key investors downsizing their tickets and consolidating their GP relationships. Nevertheless, dry powder supplies remain vast.

PE firms survey:

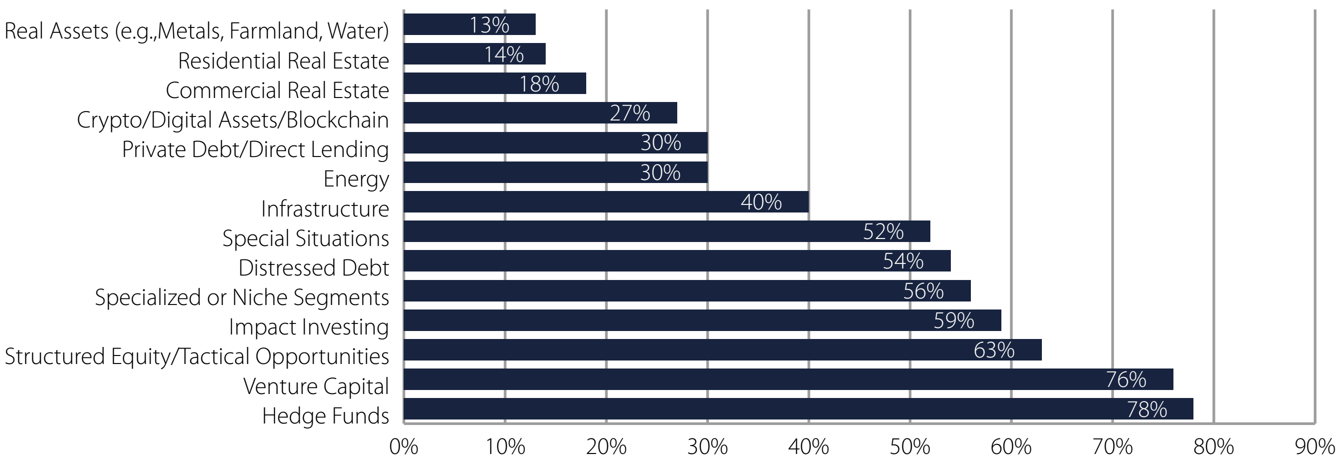
- 26% of respondents believe that interest rates will have the single biggest impact on the deal environment over the next 12 months.

- 92% of GPs say that utilizing earn-outs is a strategy their firms are employing to manage the valuation gap that emerged last year in response to macro and market conditions.

- 94% of respondents say they are likely to consider pursuing take-privates at present, a marked departure from last year's edition of this survey when less than half said they were likely to do so.

- 91% of respondents believe that the democratization of PE will have an impact on fee structuring, as retail investors gain further access to the asset class.

Survey´s Result: Which of the following asset classes is your firm considering investing in over the next 24 months?



Nuveen "Past the Peak, But Not Downhill Yet"

- Although inflation has obviously peaked, recession risks are still there, and the growth will be slow. Thus, holding cash may lead to missing lucrative investment opportunities.
- For deploying cash, the focus is on **real estate, infrastructure**, and **farmland** beyond the 60/40 Portfolio.
- They maintain a positive outlook on **private credit**, noting sustained investor demand. their focus centres on resilient sectors like healthcare, software, and insurance brokers, which are well-positioned to withstand economic downturns.
- They anticipate positive prospects for **infrastructure** investments, benefiting from persistent inflation and demonstrating resilience amid slowing economic growth. Both public and private infrastructure present compelling opportunities, with public infrastructure standing out for its attractive valuations.

Relative merits of each asset class based on the collective assessment of Nuveen's Global Investment Committee

Asset Class "Heat Map"	Negative	Neutral	Positive	More Positive
Private Equity		✓		✓
Private Credit(Debt)		✓		✓
Real Assets			✓	
Listed Infrastructure				✓
Listed REITs			✓	
Farmland			✓	
Private Infrastructure				
Commodities		✓		
Real Estate Debt		✓		
Private Real Estate	✓			

Sourc: Nuveen
These views assume a U.S. dollar-based investor seeking long-term growth and represent a one-year time horizon

M&G Investments "Peak Views: What Lies Ahead in 2024?"

- Looking ahead to 2024, challenges may arise with higher interest rates or a weakening economic environment, potentially leading to increased defaults among weaker companies. A prudent and rigorous approach to lending and credit selection is emphasized.

- Given the increasing demand for limited natural resources, appealing investment opportunities across various sectors in the transition to a circular economy, particularly within private markets can be identified.

- The crucial long-term trends include enhancing product capabilities through **Artificial Intelligence** integration and the extensive adoption of AI by companies across various industries beyond the technology sector.

- **Decarbonization** 2050 is a long-term rewarding strategy through financing companies with strong business models so as to follow sustainability goals.

- Despite the challenges posed by higher interest rates, the negative sentiment towards **infrastructure** assets, especially in utilities and REITs, presents a unique opportunity for long-term investors.

- Investors are drawn to **private credit** due to the potential for relatively high-income levels compared to public assets and the security provided by senior corporate lending. The asset class's uncorrelated and less volatile nature also attracts interest for diversification.

- **Private credit** offers advantages, such as close relationships with company owners, a deep understanding of businesses, and better monitoring, transparency, and influence on **ESG** issues.

BNY "The Path to Normalization"

- BNY recommends a robust portfolio approach rather than an optimal one to portfolio allocations.

- Alternatives, such as **hedge funds** and p**rivate asset managers**, might excel as economic distress and asset price dislocations due to higher interest rates create a broader opportunity for generating alpha.

- **Investors can strategically navigate long-term trends by:**
  1. Reassessing cash allocations to enhance portfolio returns, particularly after taxes.
  2. Extending duration through fixed income exposure, with a focus on municipal bonds for taxable investors and careful security selection.
  3. Emphasizing the AI revolution by overweighting U.S. equities for optimal benefits.
  4. Shifting towards private market exposures and alternative investments to achieve genuine diversification, capture the liquidity premium, and seize opportunities arising from economic softening.

- **KEY THEMES for 2024:**
  1. Accelerating Impact of an Aging Population
  2. Higher for Longer (Real) Interest Rates and Deglobalization
  3. Productivity and Disinflationary Promises of AI
  4. Significant Investment in Lower Carbon Policies

Real Expected Return in Alternative Assets

Source: BNY Mellon Investor Solutions. Data as of September 30, 2023.

10-Year Correlation Matrix of Alternative Assets	Absolute Return	Commodities	Energy Infrastructure	Private Equity	Private Real Estate
Absolute Return	1	0.55	0.61	0.71	0.33
Commodities	0.55	1	0.50	0.45	0.33
Energy Infrastructure	0.61	0.50	1	0.53	0.32
Private Equity	0.71	0.45	0.53	1	0.42
Private Real Estate	0.33	0.33	0.32	0.42	1

Source: BNY Mellon Investor Solutions. Data as of September 30, 2023.

Alternatives Assets	10-YR Expected Return Range (±1 SD Confidence Interval)	10-YR CMA	
		Return	Volatility
Absolute Return [1, 2]	3.5<->6.4	5.0%	4.8%
Hedge Funds [1, 2]	3.6<->7.4	5.5%	6.7%
Hedge Funds - Equity Hedge [1, 2]	3.6<->8.9	6.2%	9.4%
Hedge Funds - Event Driven [1, 2]	3.7<->8.0	5.9%	7.5%
Hedge Funds - Macro [1, 2]	3.5<->6.4	4.9%	4.9%
Hedge Funds - Relative Value [1, 2]	3.6<->6.5	5.0%	4.9%
Hedge Funds - Managed Futures [1, 2]	3.0<->8.7	5.9%	10.3%
Commodities	(1.9)<->8.9	2.2%	16.0%
Global Natural Resources Equity	1.3<->12.6	6.9%	23.5%
Energy Infrastructure	0.1<->15.0	7.6%	33.3%
Global Listed Infrastructure [1, 2]	2.0<->10.3	6.1%	15.8%
Private Equity [1, 2]	3.0<->114.5	8.8%	23.5%
Private Real Estate [2]	4.1<->9.0	6.6%	8.7%

1: Consistent with the Representative Index, returns are net of management fees.
2:The Representative Index is not investable. Returns are based on manager averages. Actual results may vary significantly.

Source: BNY Mellon Investor Solutions. Data as of September 30, 2023. Geometric average annualized expected returns before taxes and fees

Allianz Global Investors "Targeting Opportunities"

- Given the potentially challenging outlook for risk assets, especially equities, investors may explore **alternative asset allocations**, such as commodities and specific private markets, as part of their investment strategy for 2024.

- The risk-reward profile in **private credit** sounds lucrative which is the most compelling investment opportunity in Allianz GI´s view.

- **Infrastructure** stands out as a significant potential opportunity, offering not only inflation-resistant characteristics but also the potential for diversified returns and stable cashflows.

- As uncertainty breeds opportunity, Private market strategies, many with extended deployment periods, provide the potential to focus on specific relative-value opportunities while also gaining exposure to longer-term trends.

- Their perspective for long-term value in 2024 should be one vintage of private markets transactions that investors are keen to value in their portfolios in the following years.

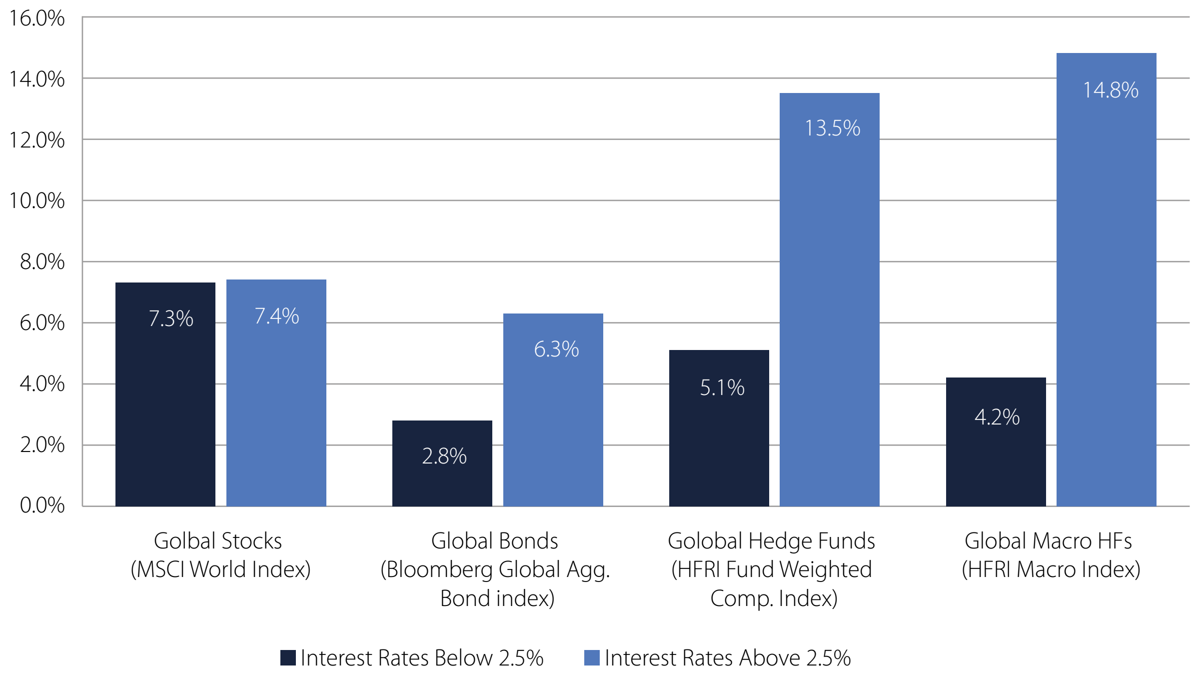
- Although inflation does still matter, structure of the investment in private markets can effectively act as an inflation hedge, but not perfectly.

iCapital "Investor Optionality and a Broader Opportunity Set"

- Top investment areas, in *iCapital's* view, are **venture capital** (Newer Vintages), **real estate debt**, municipal bonds, unprofitable tech, and **direct lending** in private markets with considering **structured investments** (combined with zero-coupon bonds) and by diversifying the portfolio with **macro hedge funds** which have generally performed far better during periods of elevated rates.

- **Private real estate** credit appears as a potentially attractive investment opportunity due to factors such as seniority to real estate equity providing structural downside protection, floating rate debt offering limited duration risk and higher yields during high-interest rate environments, and low correlation to other alternative investment asset classes.

Comparative performance across assets during different regimes



Source: eVestment, iCapital Hedge Fund Research, iCapital Investment Strategy as of Sept. 30, 2023. Analysis is based on data between Jan. 1990 through Sept. 2023

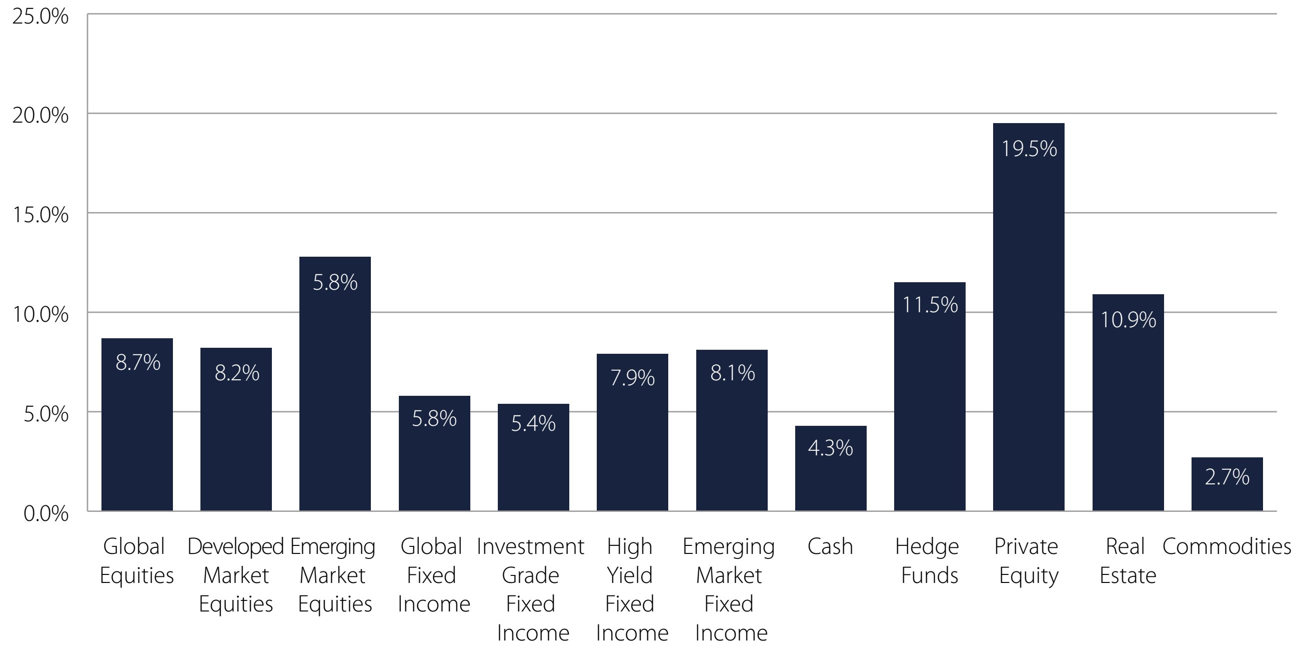
Citigroup “Slow Then Grow: Investing in the Markets’ Big Reset”

- **Alternative credit** strategies can potentially generate a yield premium over traditional fixed income portfolios. Additionally, **private equity** and **real estate** have generated more wealth over time than a portfolio made of exclusively public equities.

- Historically, long-term **hedge fund** returns have benefited from smaller drawdowns compared to long-only equities.

- It is advisable to consider the liquidity constraints and added risks involved (e.g. geopolitical risks and shocks).

10-Year Strategic Return Estimates



Source: Citi Wealth Outlook 2024

- **Scenarios, Risk Factors & Opportunities:**
  - Inflation and monetary policy: low possibility of a soft landing. More likely is another wave of inflation and an even tighter monetary policy.
  - Liquidity crises, payment defaults and financial market turbulence under geopolitical risks, tension alternation and conflicts: the probability of a major financial market crisis is low. However, individual imbalances and regionally limited credit events are quite possible.
  - Solvency crises at state level: the sustainability of deficits and debt levels is coming more into focus.

- **Global Outlook**: Monetary policy tightening takes effect, moderate recession (USA); inflation plateau increases; geopolitics as a veritable risk factor Achieve resilient asset allocation through multi-asset approach and active risk management.

- **Commodities & Precious Metals**: Weak demand outlook and high real interest rates are a burden, while limiting supply Strategic minimum ratio (hedge).

- **Money & Currencies**: Appreciation of the euro (valuation advantages, but recessionary tendencies as a counterbalance)

- **Private Markets**: High interest rates open up partial opportunities, **infrastructure** benefits from ecological transformation, **secondaries** with significant valuation discounts professional selection with regard to the consequences of higher interest rates as the key to success, opportunities in the areas of infrastructure, private debt and secondaries.

- **Hedge Funds**: High interest rates, economic imbalances and geopolitics as an opportunity. Significantly positive returns in all segments, global macro indispensable in a multi-strategy hedge fund portfolio.

- **Digital Assets**: Approval of a Bitcoin spot ETF, fourth halving and ongoing tokenization trend as positive drivers. Generally increased acceptance of blockchain technology, digital assets gain importance within a multi-asset allocation.

- **Volatility Strategies**: Numerous risk scenarios and volatility drivers increase return. potential risk-off phases expected: increased insurance demand/premium increases return expectations; higher base rate of return as a further performance driver.

- **Real Estate**: Interest rate environment under pressure, strategic inflationary pressure as a positive counterbalance. Price adjustment advanced, first entry opportunities in 2024; real estate is a strategic inflation winner.

Cambridge Associates "2024 Outlook"

- **Hedge Funds**: Equity long/short strategies are anticipated to surpass their long-term average performance, driven by increased short rebates and the prospect of heightened global equity volatility amidst economic conditions and geopolitical uncertainties.

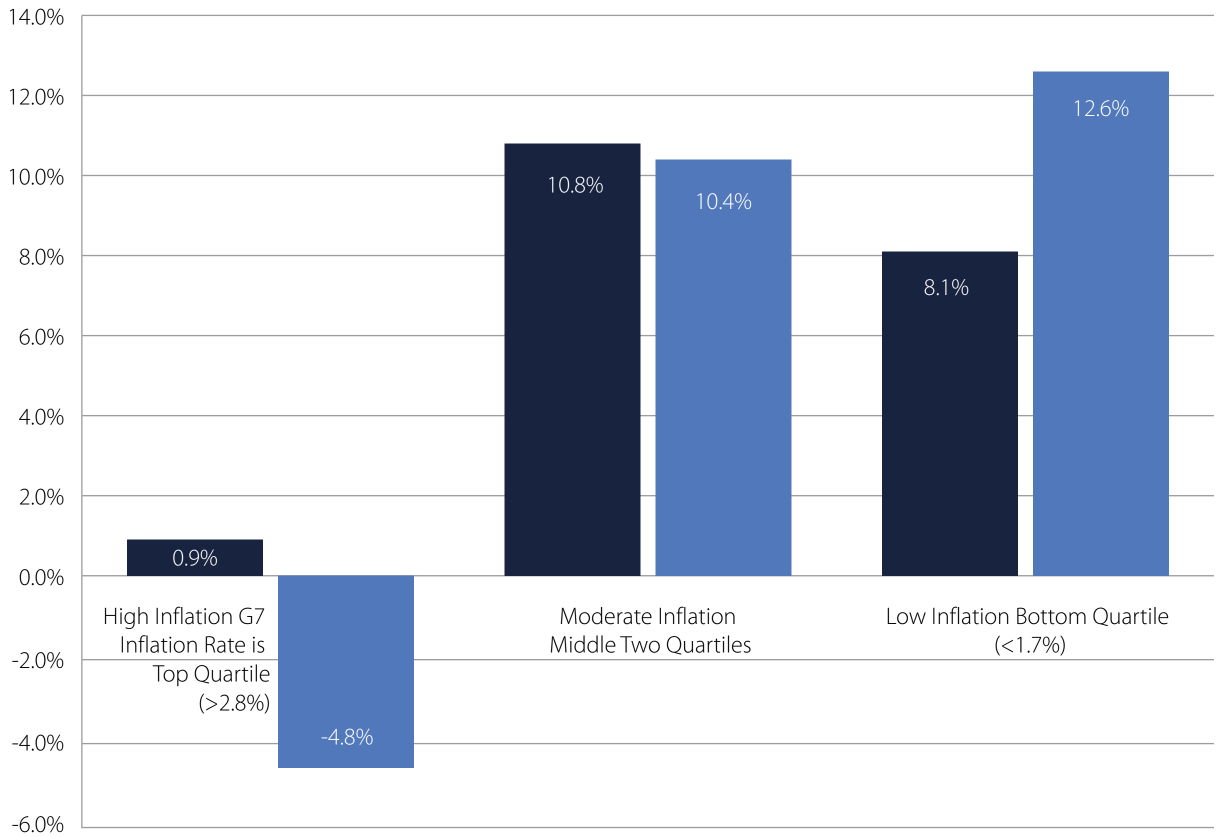
- **Real Assets**: They anticipate improved performances in REITs and public infrastructure, fuelled by favourable valuations and their interest rate outlook. Additionally, strong performance from private infrastructure funds is expected, with nuclear energy emerging as a promising albeit modest opportunity.

- **Credit Market**: Outperformance in direct lending and European opportunistic private credit funds, driven by elevated asset yields and reduced credit availability from traditional lenders is anticipated for 2024. Their preference lies in **structured credits**, especially high-quality collateralized loan obligation debt, while they expect high-yield bonds to outperform leveraged loans, though we maintain a neutral stance on high yield due to compressed spreads.

- **Private Equity & Venture Capital**: They also anticipate a rise in US venture capital down rounds, emphasizing the ongoing impact of artificial intelligence. Additionally, they expect increased investment flows into European turnaround and value strategies, limited interest in China private investments, and a surge in secondary transaction volume to a record level.

- **Sustainability**: Anticipating increased sustainability efforts, they expect more companies to establish science-based emission reduction targets and credible transition plans. Furthermore, they project a record-setting rise in funds for natural capital strategies and anticipate California carbon allowances to outperform global equities.

Infrastructure Performance in different Inflationary Environments



Source: Cambridge Associates 2024 Outlook

Amundi *"Steering Through Turning Tides"*

■ Investors can benefit from tailwinds in private markets by focusing on **infrastructure** for its steady cash flows and strong growth outlook for the following years as well as both real and alternative assets (such as macro and fixed income **hedge funds**) which may add further diversification to portfolio.

Private Markets	Private Equity	Private Debt	Real Estate	Infrastructure
Inflation Protection	↕	↗↗	↗	↗↗
Diversification Benefit	↗	↗	↗↗	↗↗↗
2024 Outlook	↙↕	↗	↙↕	↗↗
Entry Opportunities over the next 5 years	↗	↗	↕	↕

Sources: Amundi Real Assets qualitative assessment as of 30 September 2023

Wells Fargo Investment Institute

"A Pivotal Year for the Economy and Markets"

■ Both **hedge funds** and **private capital funds** can offer a set of robust opportunity for **distressed credit** strategies. If traditional markets turn volatile, global macro and relative value strategies typically are not correlated with traditional equity and fixed-income markets and may provide an opportunity for diversification.

Macquarie Asset Management *"A World in Transition"*

■ Not only the **real estate** faces challenges by interest rates hikes affecting on capitalization rates and financing costs, but also, the **office sector** is running to the headwind of a decreasing demand due to the employers' preferences on work remotely.

■ **Infrastructure** can act as a buffer against inflation with its defensive traits and relatively high returns, plus having significant exposure to enduring growth trends, including the energy transition and digitalization.

Schroders *"Private Equity Silences the Doubters"*

- Despite 11 rate hikes in 17 months by the Fed, Schroders believe that inflation rate and interest rate, remain higher for longer as result of most structural regime shift with three key underlying drivers.

- **Private equity** has faced criticism in 2024 for perceived illiquidity, high leverage, and overvaluation. However, the concerns are considered misguided. In terms of liquidity, the reliance on IPOs for exits is minimal, and the focus is on selling to other funds or corporates.

- Furthermore, investing in **secondaries** during market volatility is seen as a driver of returns.

- In 2024, key themes shaping **private equity** include a return to pre-pandemic fundraising levels, a focus on take privates with moderating equity valuations, a quality bias due to a higher cost of debt from increased yields, steady deal flow in the small and middle market buyout space, and a shift in global fundraising dynamics with Europe gaining share.

- Additionally, the decline in fundraising from Asia is offset by growth in **private equity** investments in India and Southeast Asia, making them attractive regions for investment.

BNP Paribas *"Stepping into a New Reality"*

- BNP Paribas assumes that Europe is more vulnerable to recession risk and will hardly grow in 2024. Hence, Probable lower bond yields and lower equity prices as expected earnings fail to materialise could be one of the scenarios for this year.

- They investigate the long run investment themes such as **Artificial Intelligence** and Private Assets as rich pipelines of opportunities.

- **Asset allocation**: They favour government bonds over equities, anticipating lower bond yields as central banks cut rates to support growth, and lower equity prices as expected earnings fail to materialise. Thus, being long duration alongside caution on developed market equities is their highest conviction asset allocation view on developed market equities.

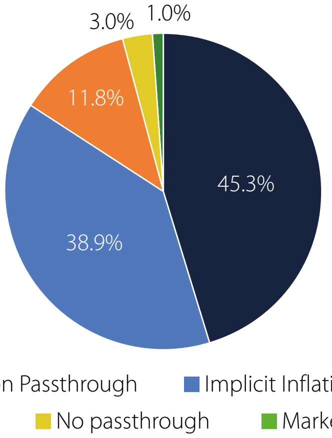
- Investors Transition to **low-carbon assets** as a turning point in **infrastructure debt** to combat with the risk of global warming. Being able to secure high **ESG** ratings based on effective management of financial and associated risks has led to a questioning of the credibility of sustainable investing practices.

- There is ongoing rapid product innovation in the **infrastructure debt** market, along with the emergence of new assets and investment ecosystems in the transition to a low-carbon economy.

Deutsche Bank "Annual Outlook 2024: Finding Growth"

- As the economic growth is the main issue, it is expected that the first rate cuts arrive in 2024 but not too many.
- Amidst rising inflation rates, alternative investments like **private equity, real estate**, and **infrastructure** offer an attractive balance within investment portfolios.
- As stocks and bonds move in lockstep, alternative risk premia should be added to portfolios.
- Property markets are likely to resume upward trend as rates peak and revert moderately.
- Risks around "stranded assets" – environmentally- problematic resources which regulation or other factors make economically unviable – are very likely to grow.

Infrastructure investments with inflation protection



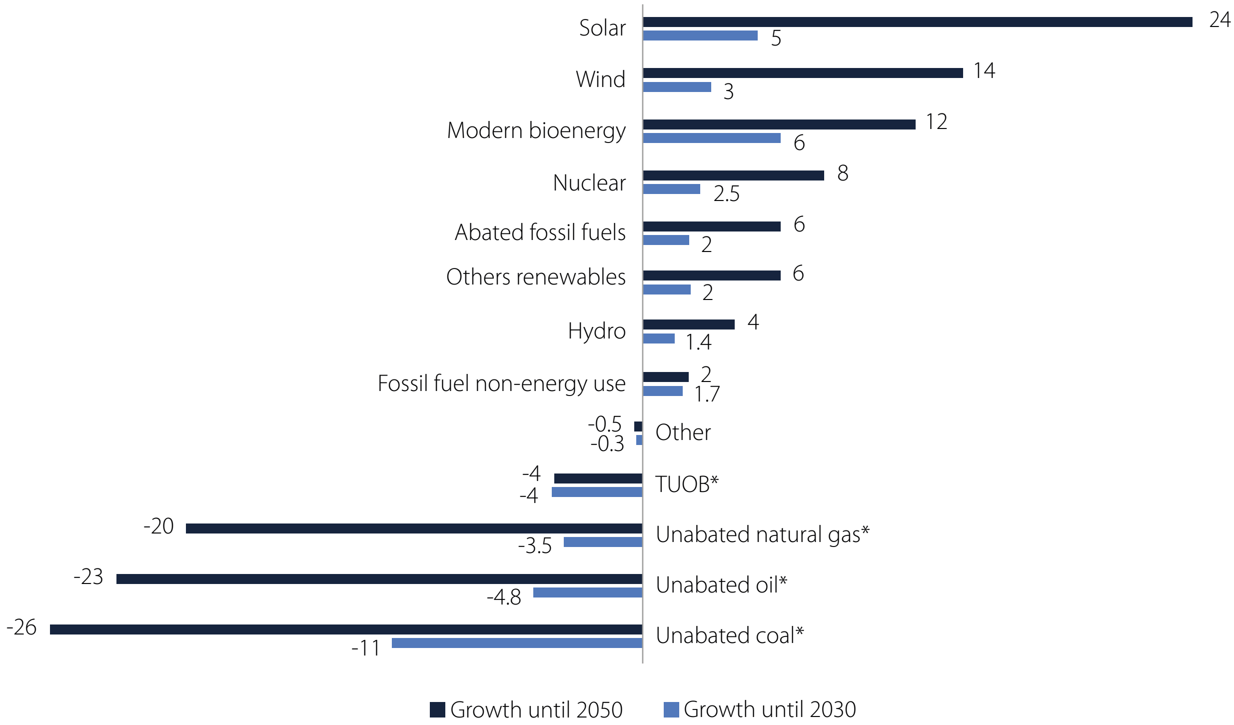
Source: Deutsche Bank annual outlook 2024

		2023	2024
GDP Growth %	U.S.	2.3	0.8
	Eurozone (of which)	0.7	0.7
	Germany	-0.1	0.9
	France	0.7	0.7
	Italy	0.9	0.5
	Spain	2.5	1.2
	Japan	2.1	1.0
	China	5.2	4.7
	World	3.0	2.8
CPI %	U.S.	4.2	2.8
	Eurozone	5.7	2.9
	Germany	6.0	3.2
	Japan	3.2	2.3
	China	0.5	1.8

For the U.S., GDP growth Q4/Q4 % is 2.4 % in 2023 and 0.4 % in 2024, Source: Deutsche Bank AG, Bloomberg

Finance L.P.; Forecasts as of November 15, 2023.

Forecast development in the share of certain energy sources in global energy generation by 2030 and 2050compared with 2022 (%)



Source: IEA, Deutsche Bank annual outlook 2024

UBS "Year Ahead 2024"

- *UBS* predicts a GDP growth of 0.6% for the Eurozone and 1.1% for the US.

- Their overall preference leans towards bonds over equities, with a recommendation to invest in quality in both assets. Quality bonds present attractive yields, and there will be an expectation of capital appreciation amid slowing growth and falling yields. Specifically, the preference is for the U.S. TIPS, investment-grade corporate bonds, Agency MBS, and sustainable bonds.

- Additionally, diversification with **alternative credit** (Credit Arbitrage & Distressed Debt) and seeking growth from private markets is advised for 2024. Aside from diversification, they see value in capital preservation strategies, alternative investments, or positioning in **oil** and **gold**.

- Active asset management also increases the resiliency of **infrastructure** assets, as operational and financial levers can be adjusted under different economic environments to maximize value. So, Higher discount rates do not impact valuations much when the underlying assets are also making more profit, however, the underrated feature of **infrastructure** is not having to worry about market timing.

- **Secondary grade retail** and **malls** are likely to continue to underperform, with some of these properties still likely to need re-purposing in retail sector.

- UBS also claims that **real estate** markets will stabilize, and the re-pricing will come to an end in 2024. How real estate markets fare in 2024 will critically depend on interest rates. Hence, investors should carefully monitor the interest rate outlook as it evolves and consider its implications.

Unlisted Real Estate Sector Performance Outlook	Negative	Neutral		Positive	
US		Office	Residential, Hotel	Retail, Industrial	
Germany		Office	Retail, Residential, Hotel		Industrial
Canada			Office, Retail, Industrial, Residential, Hotel		
France			Office, Residential	Retail, Industrial, Hotel	
Switzerland			Office	Retail, Residential, Hotel	Industrial
UK	Hotel	Office	Residential	Retail, Industrial	
Australia		Office	Retail	Industrial, Residential, Hotel	
Japan				Office	Retail, Industrial, Residential, Hotel
Singapore			Office, Retail	Industrial, Hotel	

Source: UBS Asset Management

AEW "2024 European Outlook: Repricing Triggers Revival"

- Prime yields to tighten after 2024.
- **Prime logistics** and **residential** retain the joint top ranking in terms of rental growth with 2.5% p.a. due to limited supply of new space.
- The anticipated reversal of the denominator effect in 2024 is poised to unlock more capital for **real estate**. The downward adjustment for property, coupled with the rebound in stocks and bonds over the past year, has realigned the real estate allocations of multi-asset investors with their targets. This suggests an expectation of more available capital for real estate investments in 2024.
- **Commercial real estate debt** is anticipated to become accretive again in the Eurozone starting from 2025 and in the UK from 2026. This projection is based on the base case scenario, which foresees a decline in Eurozone inflation and 5-year swap rates occurring earlier than in the UK.
- Germany has the largest **debt financing gap** as % of its total originated loan volumes with €35bn followed by Nordics and France, but it still retains the most attractive market in Europe revealed their relative value analysis base case 2024-2028.
- Across core Europe, the **logistics** and **light industrial** markets in Spain, Benelux, and France exhibit the strongest positive signals. This is indicated by the excess spread of ERR (Effective Rent Range) over RRR (Required Rent Range) while the only three segments with a negative excess spread are italian **offices** and **high street retail**, along with spanish **high street retail**.

DWS "2024 Real Estate Outlook"

- DWS observes opportunities in both **real estate debt** and **equity** as easing financial conditions offset a soft patch for fundamentals. It means that if interest rates fall, cap rates could follow suit, adding further support to capital appreciation.
- In the European market, **residential and logistics** are specifically promising.
- Despite a surge in apartment construction, rising vacancies are expected in 2024 due to supply outpacing demand. The vacancy rate increased to 5.1% in 3Q 2023 and a weak rent growth is anticipated into 2024.
- **Infrastructure debt** should also be promising as it embraces the benefits of financial needs related to megatrends and transitions to **ESG** and digitalization.

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About us

The Bundesverband Alternative Investments e.V. (BAI) is the asset class- and product-spanning representation of interest for Alternative Investments in Germany.

Our goals

- We are improving the level of public awareness for alternative strategies and asset classes
- We are creating internationally competitive and attractive (regulatory) conditions for the investment in Alternative Investments
- We are representing the interests of the industry to politics and regulators
- We are serving as a catalyst between professional German investors and recognized worldwide providers of Alternative Investments products and services
- We are supporting scientific research in the field of Alternative Investments

Founded 1997 in Bonn, the association's members are resident in any field of the professional Alternative Investments Business. 289 national and international companies are members of the BAI.

The members directory can be found **here**.

Upcoming Conferences and Events

- **BAI Private Debt Symposium**
  March 5, 2024, Scandic Hotel Hafenpark, Frankfurt
- **BAI Alternative Investor Conference (AIC)**
  22-24 April, 2024, Kap Europa, Frankfurt

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