iCapital

The 2025 Advisor's Guide to Pivoting Portfolios During Volatile Markets

How Alternatives Can Help Advisors Stay Nimble

June 2025

Why Advisors May Need to Pivot Faster Than Ever

Diverging central bank policies. Rolling sector-level volatility. Sticky inflation.

The volatile market environment in 2025 is demanding more from advisors than ever before. The traditional 60/40 portfolio—once a reliable cornerstone for diversification—remains under pressure as both stocks and bonds continue to move in tandem.

Clients are looking for real-time downside protection and steady income, but most models weren't built for speed. It's time for advisors to rethink and reallocate with intention.

Volatility Isn't a Bug—It's the Environment

In 2024, volatility was more than a moment—it became a fixture.

- The S&P 500 seesawed with every rate expectation shift
- Treasury yields remained volatile, and the yield curve stayed inverted
- Tech leadership masked broader market weakness and concentration risk
- Traditional hedges like long-duration Treasuries underperformed expectations

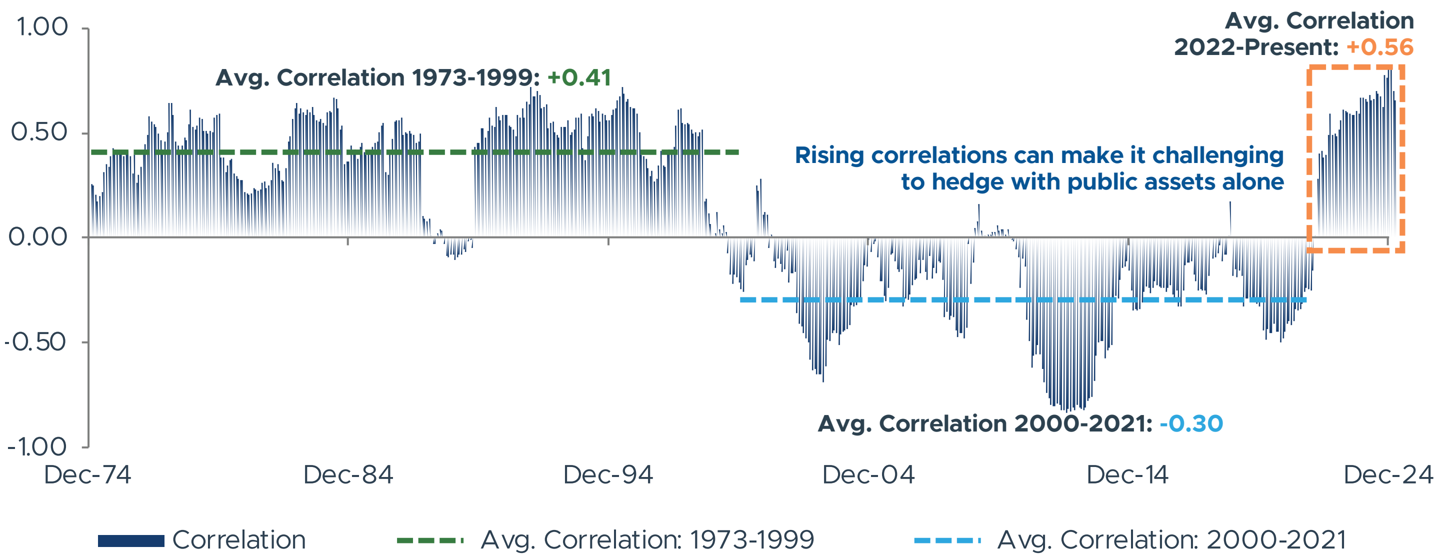
Today's market is shaped by **structural volatility**—persistent, multi-factor, and harder to hedge with public assets alone.

> "A Global 60/40 portfolio returned just 1.5% annually on a three-year basis, well below several alternative investment strategies"

Source: Bloomberg Index Services Limited, MSCI, iCapital Alternatives Decoded, with data based on availability as of Apr. 30, 2025. Note: Data as of December 2024 and is subject to change based on potential updates to source(s) database. Global 60/40 proxied by 60% MSCI ACWI Total Return Index and 40% Bloomberg Global Aggregate Index.

Exhibit 1: The Traditional 60/40 Portfolio is Not Offering the "Natural" Diversification it Use to

Trailing 24-month correlation between the S&P 500 and the Bloomberg U.S. Long Treasury index (as of March 2025)



Source: Bloomberg Index Services Limited, S&P Dow Jones, iCapital Alternatives Decoded, with data based on availability as of Apr. 30, 2025. Note: Data through December 2024 and is subject to change based on potential updates to source(s) database. For more information, please refer to the Index Definitions, Attributions, and Important Information sections at the end of this deck. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Using Alts to Build In Flexibility, Income, and Diversification

A. Private Credit: A Fixed Income Upgrade

- **Use case:** Complement traditional bonds with higher, floating-rate yield
- Floating-rate structures can outperform in rising or unpredictable rate cycles
- Defensive positioning with senior secured loans or direct lending

Private credit AUM hit $1.6T in 2024, with average yields of 9–11%.

B. Real Assets: Hedging Inflation with Hard Infrastructure

- **Use case:** Build long-duration income potential and inflation protection
- Infrastructure (energy, utilities, digital) and real estate with inflation-linked cash flows
- Defensive positioning due to low correlation (vs. public markets), to potentially improve diversification

C. Private Equity Secondaries: Deploying into Dislocation

- **Use case:** Enter private equity at a discount with shorter duration
- Ideal for tactical reallocations during public market turbulence or stress in private equity exits
- Secondaries can provide a defensive set of diversified assets with equity upside

Access curated secondaries via iCapital Marketplace

Exhibit 2: Infrastructure Has Delivered Returns Outpacing Inflation

Time-period returns ranked in order of performance (%, as of December 2024)

Time-Period Return (%, per annum)

3YR	5YR	10YR	15YR
10.4% Private Infrastructure	10.2% Private Infrastructure	9.8% Private Infrastructure	9.5% Private Infrastructure
9.7% Private Timberland	7.8% Private Timberland	5.9% Private Agriculture	8.9% Private Agriculture
4.8% Inflation*	5.2% Global 60/40	5.6% Global 60/40	7.9% Public Infrastructure
4.4% Private Agriculture	4.8% Private Agriculture	5.5% Public Timberland	6.2% Public Timberland
4.0% Public Infrastructure	4.3% Public Timberland	5.4% Private Timberland	5.9% Global 60/40
1.5% Global 60/40	4.1% Public Infrastructure	4.3% Public Infrastructure	5.5% Private Timberland
-3.0% Public Agriculture	3.7% Inflation*	2.5% Inflation*	2.3% Inflation*
-4.2% Public Timberland	3.4% Public Agriculture	0.7% Public Agriculture	1.8% Public Agriculture

Source: Bloomberg Index Services Limited, FTSE Russell, MSCI, NCREIF, Preqin, S&P Dow Jones, iCapital Alternatives Decoded, with data based on availability as of Apr. 30, 2025. Note: Data as of December 2024 and is subject to change based on potential updates to source(s) database. Public infrastructure proxied by Dow Jones Brookfield Global Infrastructure Composite Index. Public agriculture proxied by S&P Global Agribusiness Composite Index. Public timberland proxied by S&P Global Timber and Forestry Index. Global 60/40 proxied by 60% MSCI ACWI Index and 40% Bloomberg Global Aggregate Bond Index. Private agriculture proxied by NCREIF Farmland Property Index. Private timberland proxied by NCREIF Timberland Property Index. Private Infrastructure proxied by Preqin Infrastructure Index. Inflation proxied by OECD G7 Countries Composite CPI inflation and the rate shown is based on the average monthly year-over-year reads for each calendar year and time period. It is important to note that the returns listed are based on indices that are meant to estimate the asset class performance, hypothetically creating a return if one had access to all funds. Not all the above indices are practically investable and are subject to change as datasets are continually updated. All returns are calculated in U.S. dollars. For more information, please refer to the Index Definitions, Attributions, and Important Information sections at the end of this deck. For illustrative purposes only. Past performance is not indicative of future results. Future results are not guaranteed.

Sample Allocations for a Volatile World

Case Study:
Rethinking the 60/40

Traditional 60/40 Portfolio:
60% Equities / 40% Fixed Income

Expanded Portfolio with Alternatives:
50% Equities / 25% Fixed Income / 25% Alternatives

Breakdown of Alts:

- 15% Private Equity
- 5% Private Credit
- 5% Hedge Funds

What to Know Before You Allocate to Alts

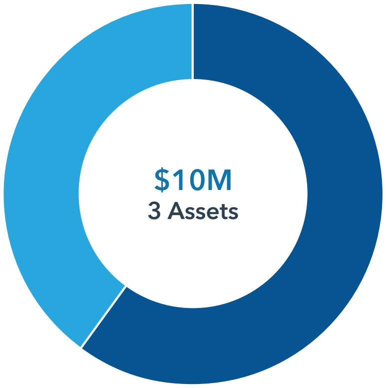
Before pivoting portfolios, advisors should address:

- **Liquidity:** Evergreen funds vs. capital call structures
- **Suitability:** Accredited investor vs. qualified purchaser thresholds
- **Reporting and tax:** Monthly/quarterly valuations, K-1s vs. 1099s
- **Client Education:** Explain alts as a tool for downside mitigation, diversification and the potential to earn higher returns

iCapital's platform helps streamline access, paperwork, and client reporting for alternatives

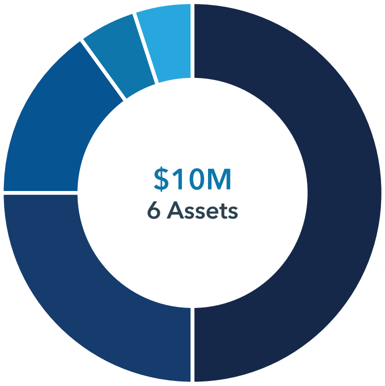
Exhibit 3: Portfolio Analysis: Sample 60/40 Portfolio vs. Sample 60/40 with Alternatives
20-year analysis: December 2004 – December 2024

Traditional 60/40 Portfolio



60% Equities
40% Fixed Income

Expanded Portfolio with Alternatives



50% Equities
25% Fixed Income
15% Private Equity
5% Private Credit
5% Hedge Fund

	Annualized Return	Annualized Volatility	Max Drawdown	Sharpe Ratio
Traditional 60/40 Portfolio	6.8%	10.1%	28.7%	0.52
Expanded Portfolio with Alternatives	8.3%	9.6%	29.2%	0.70

Source: iCapital. Portfolio analysis is based on iCapital propriety models with data based on availability as of April 30, 2025. Equity performance is represented by the SPDR S&P 500 ETF Trust SPY (domestic) and iShares MSCI EAFE ETF EFA (all). Fixed Income performance is represented by the iShares Core U.S. Aggregate AGG. Private Equity performance is represented by the Generic Private Equity Fund GPEF. Private Credit performance is represented by the Generic Private Credit Fund GPCF. Hedge Fund performance is represented by Generic Multi-Strategy Hedge Fund- GMSHF. Please see "Index Definitions" in the "Important Information" section of this presentation for additional information. Gor illustrative purposes only. Portfolio analysis does not reflect an actual trading program and no investor actually achieved the performance shown. Past performance is not indicative of future results. Future results are not guaranteed.

Your Volatility Toolkit: Next Steps

1

Run a client screen

Identify who needs downside protection, income, or uncorrelated growth

2

Match client needs with portfolio goals

Understand return requirements, risk appetite and liquidity needs

3

Explore iCapital Marketplace

Use curated filters by structure, liquidity, asset class, and investor eligibility to find investment opportunities that might be right for your clients

4

Leverage iCapital Model Portfolios

Provide a simple and convenient entry point for investors looking to diversify beyond traditional markets

Learn More About How iCapital Can You Help Pivot Client Portfolios Towards Alternative Investments

Search Funds on Marketplace

Log in or learn how to register to compare alternative investment strategies by structure, liquidity, and objective.

View Model Portfolios in Action

See how professionally constructed portfolios integrate private credit, real assets, and secondaries to support different client goals.

GLOSSARY

Core Concepts

Alternative Investments: Encompasses investment types that do not fall within one of the conventional investment types (e.g., stocks, bonds, and cash). Alternative investments are typically held by institutional investors or accredited, high-net-worth individuals because of the complex nature and investor eligibility requirements. The most common alternative investments are private equity, private credit, real estate, hedge funds, and structured investments. Alternatives tend to have different attributes than traditional stock and bond investments from a risk-return and time horizon perspective and may be used in a portfolio to enhance return/income potential, provide diversification, and/or dampen volatility.

Non-Correlated Assets: Assets whose performance does not move in tandem with traditional equity or fixed income markets, meaning their returns are largely independent of broader market trends. In a portfolio context, non-correlated assets—such as private credit, hedge funds, or real assets—can enhance diversification by reducing overall portfolio volatility and drawdown risk during market dislocations. They are particularly valuable in periods when traditional asset classes experience simultaneous declines.

Private Markets: Investments not traded on a public exchange or market. Private market asset classes include private equity, private credit, venture capital, infrastructure, and real estate, among others. (AKA Alternative Investments)

Illiquidity Premium (or Liquidity Premium): A premium demanded by investors for locking up their capital in an investment that cannot easily be converted into cash for its fair market value. Investors in private market funds are typically compensated with the expectation of greater potential returns.

Drawdown Structure: A peak-to-trough decline of a hedge fund, generally quoted as the percentage between the peak and the subsequent trough.

Interval Fund: A type of closed-end fund that does not trade on an exchange and allows investors to redeem shares at preset intervals—typically quarterly—at net asset value (NAV). Interval funds are often used to provide access to less liquid alternative investments while offering periodic liquidity, making them suitable for clients seeking exposure to private credit, real estate, or infrastructure without the long lock-up periods associated with traditional private funds.

Evergreen Fund: A perpetual investment vehicle that does not have a fixed termination date and allows for ongoing capital subscriptions and redemptions, typically subject to periodic liquidity windows. Evergreen funds are commonly used in private markets to offer investors greater flexibility than traditional closed-end fund structures. They provide continuous access to a diversified pool of assets and reinvest capital from realizations rather than returning it, allowing for long-term compounding while easing reallocation and cash flow planning.

Closed-End Fund: A fund that is only open to investors during its predefined fundraising period and/or until it has met its specified fundraising target. A private market fund is typically a closed-end fund.

Open-End Fund: A pooled investment vehicle, such as a mutual fund or UCITS, that continuously issues and redeems shares at net asset value (NAV), based on investor demand. Open-end funds provide daily liquidity, are priced at the end-of-day NAV, and typically invest in publicly traded securities. They differ from closed-end and interval funds in that they do not trade on exchanges and allow for continuous capital inflows and outflows, making them suitable for investors requiring high liquidity and transparent pricing.

Private Credit

Private Credit: An actively managed type of alternative investment that consists of credit that is extended to companies or projects on a bilaterally negotiated basis. It is not publicly traded (such as many corporate bonds) and is originated or held by lenders other than banks. Private credit funds aim to generate returns by pooling investors' capital and investing in the debt of privately held companies by making loans to these companies, or acquiring loans in a secondary market.

Direct Lending Strategy: An investment strategy whereby a fund, entity, or individual acts as a non-bank lender and extends loans or credit to private businesses.

Floating Rate Loans: Debt instruments with variable interest rates that reset periodically—typically every 1 to 3 months—based on a benchmark such as SOFR, LIBOR (legacy), or a similar reference rate, plus a credit spread.

Senior Secured Debt: A class of debt that holds the highest priority in a borrower's capital structure and is backed by specific collateral. In the event of default, senior secured lenders are repaid before unsecured or subordinated creditors, and have a legal claim on pledged assets (e.g., property, equipment, receivables).

Mezzanine Debt: A hybrid form of financing that sits between senior debt and equity in the capital structure. Mezzanine debt typically offers higher yields and includes embedded equity options (e.g., warrants) to compensate for higher risk and lower collateral priority.

Distressed Debt: An investment strategy that invests in the debt of a financially distressed company, government, or public entity (that has filed for bankruptcy or has a significant chance of filing for bankruptcy in the near future), with the goal of improving business operations to generate a return.

Real Assets

Infrastructure: A real asset investment category encompassing essential physical systems and services—such as transportation, energy, water, and telecommunications—that typically offer long-term, inflation-linked cash flows and lower correlations to public markets.

Core/Core+ Real Estate: Core real estate refers to high-quality, stabilized properties in prime locations that generate steady income with low leverage and minimal operational risk. Core+ involves slightly more risk through moderate leasing, location, or capital improvement strategies, offering the potential for higher returns.

Opportunistic Real Estate: A type of real estate strategy that focuses primarily on properties that tend to either need significant rehabilitation or suffer from substantial capital constraints. They may also involve projects being built from the ground up (also known as development). As a result, opportunistic real estate investments typically offer higher risk/reward potential than other real estate strategies.

Private Real Estate: An actively managed type of alternative investment that pools investors' capital and aims to generate returns by investing in the equity and debt of real estate assets.

Real Estate Investment Trust (REIT): A company that owns and typically operates income- producing real estate or related assets as part of its investment portfolio.

Inflation Hedge: An investment designed to preserve purchasing power by generating returns that typically rise with inflation. Common inflation-hedging assets include infrastructure, real estate, commodities, and floating-rate debt.

Private Equity

Private Equity: An actively managed type of alternative investment that consists of capital that is not listed on a public exchange. Private equity funds aim to generate returns by pooling investors' capital and investing in private or public companies, with the goal of creating value by taking them private.

Buyout Investment Strategy: The acquisition of an established and mature company, typically using debt and equity financing, generally to acquire a controlling interest and/or significant influence, with the intention of improving business operations. Buyouts can span investments in small, mid-sized, or large companies.

Growth Equity: A private equity strategy that invests in companies that are profitable but still maturing, usually in a growing industry or sector. These companies are typically at a development stage between venture capital (early- stage businesses with limited historical financials) and leveraged buyouts (mature companies with a long track record of cash generation). Growth equity investments can be minority or majority in nature, and typically use little to no leverage.

Venture Capital: A type of private equity strategy that provides capital to emerging companies that often do not have revenues and/or positive cash flow. This is generally a high-risk strategy but typically has the highest return potential.

Secondaries: A private market strategy that acquires interests in other private market funds. This allows exposure to later-stage private market strategies.

Co-Investment: A direct investment opportunity alongside a lead private equity or private markets fund, typically offered to limited partners at reduced fees. Co-investments allow investors to gain additional exposure to individual deals with potentially enhanced return profiles and transparency.

J-Curve: A line graph which illustrates the typical trajectory of returns made by private market funds. Plotted over the life of the fund, the J-curve shows the historical tendency of private market funds to deliver negative returns in early years (as money is called from investors and invested by the fund manager) and investment gains in the latter years of the fund's life cycle (as investments mature and generate returns).

NAV (Net Asset Value): The value of an investment fund's assets minus its liabilities, typically expressed on a per-share basis. NAV reflects the current valuation of fund holdings and is a key metric for assessing fund performance and liquidity.

Portfolio & Risk

Sharpe Ratio: A measure of fund's risk-adjusted performance. It is calculated by taking a fund's annualized return, removing the risk-free rate (typically the 3-month Treasury rate), and dividing this excess return by the fund's standard deviation.

Risk-Adjusted Return: A performance measure that evaluates an investment's return relative to the amount of risk taken to achieve it. It allows advisors to compare investments with different risk profiles on a level playing field. Common metrics used to calculate risk-adjusted return include the Sharpe ratio, Sortino ratio, and alpha, helping to assess whether a portfolio's returns are due to smart investing or excessive risk-taking.

Diversification: A method of risk management designed to reduce the risk and volatility of a portfolio through holding a wide array of different assets that have limited correlation to each other.

Correlation: A statistic that measures the degree to which two securities move in relation to one another. In hedge funds, it is often used to compare the similarity in movement of a fund and an index.

Vintage Year: The legal inception year for a fund, typically the year the fund makes its first investment.

IRR (Internal Rate of Return): The rate of return that discounts future cash flows from an investment to the exact amount of the investment. The discount rate that makes the present value of all invested capital equal to the present value of all returns. The IRR is calculated as an annualized compounded rate of return measure and takes the time value of money into account. IRR is the standard calculation for private market performance by the CFA Institute.

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