

# Principles of Alternatives Investing



1Q 2026

As of January 31, 2026



# Principles of Alternatives Investing

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## Why Alts? Challenges of the traditional 60/40 portfolio.

- 1 Higher valuations point to lower future returns.
- 2 Income from a 60/40 portfolio is low relative to history.
- 3 It's hard to diversify if stocks and bonds move together.

## Which Alts? Solutions for different outcomes.

- 4 Alternatives allow investors to solve for various outcomes.
  - A Private equity offers access to a diverse set of companies.
  - B Private credit has grown as traditional bank lending has retreated.
  - C Real assets, like real estate, have strong and durable income streams.
  - D Public funding gaps are driving the need for private infrastructure investment.

## “How” Alts? The importance of manager and vehicle selection.

- 5 Different types of investments vehicles are suitable for various types of strategies.
- 6 Manager selection is critical in private markets.



# Higher valuations point to lower future returns.

Alternatives in portfolios

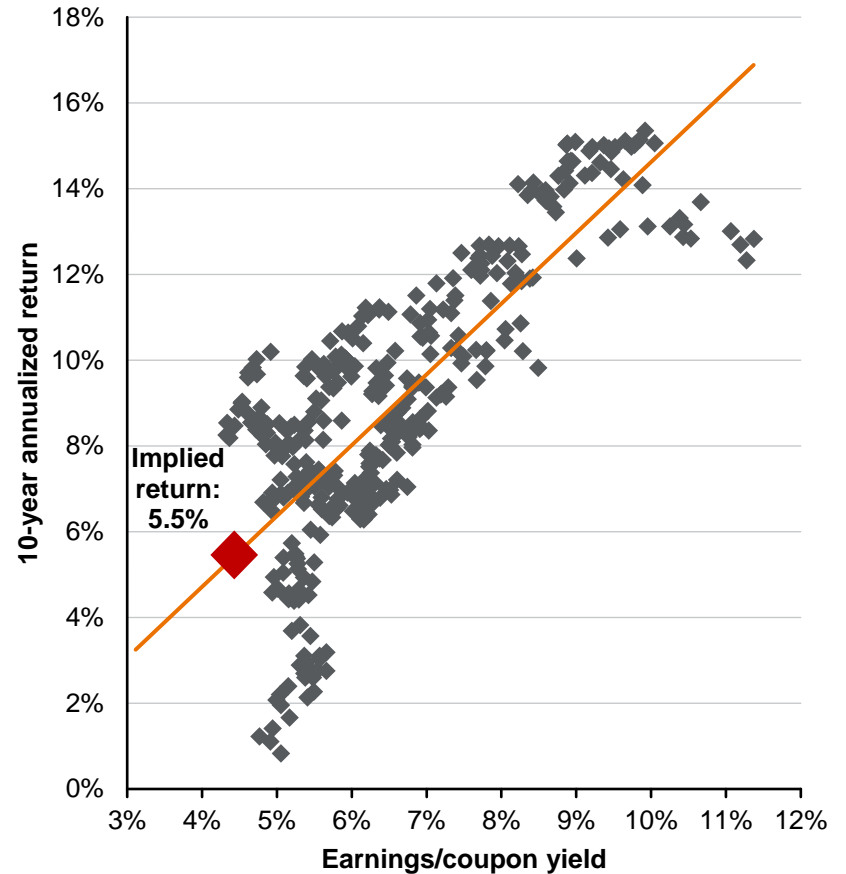
### Earnings/coupon yield on a 60/40 portfolio

Blended S&P 500 forward E/P ratio and Bloomberg U.S. Agg. YTW



### 60/40 earnings/coupon yield and subsequent returns

10-year annualized returns, January 1985 – January 2016



Source: Bloomberg, FactSet, IBES, Standard & Poor's, Thomson Reuters, J.P. Morgan Asset Management.  
 (Left) Valuation is calculated by summing 60% weight to earnings yield on the S&P 500 (inverse of forward P/E) and a 40% weight to the yield to worst on the U.S. Aggregate. Earnings yield is the forward earnings yield (consensus analyst estimates of EPS over the next 12 months divided by price) as provided by IBES since December 1984 and by FactSet since January 2022. (Right) Returns are based on a 60% weighting in the S&P 500 Total Return Index and a 40% weighting in the U.S. Aggregate Total Return index. 60/40 is rebalanced annually. Returns are 120-month annualized total returns, measured monthly, beginning 12/31/1984. Past performance is not a reliable indicator of current and future results.  
*Guide to Alternatives*. Data are based on availability as of January 31, 2026.

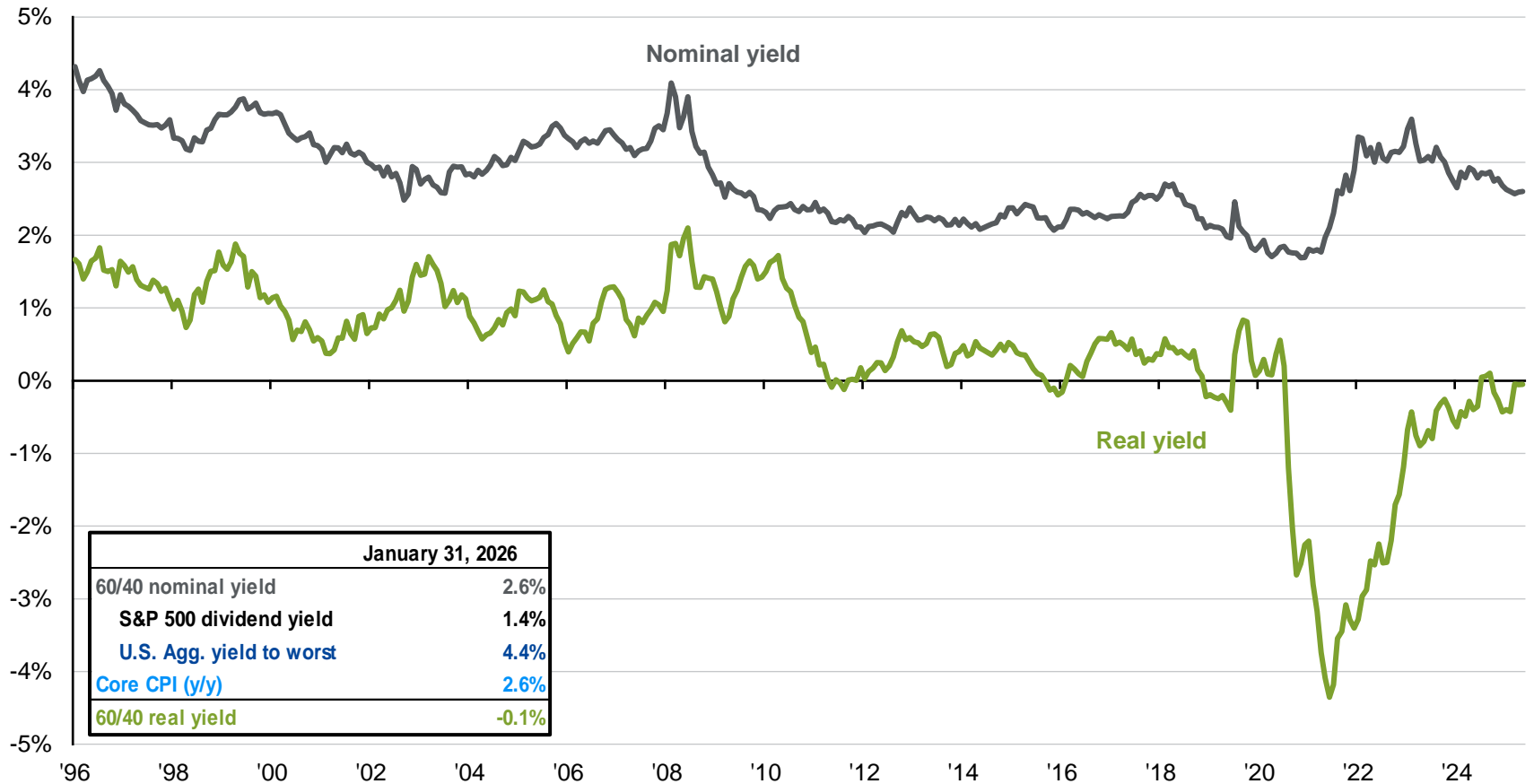


# Income from a 60/40 portfolio is low relative to history.

Alternatives in portfolios

## 60/40 portfolio yield

60/40 portfolio yield minus the year-over-year % change in core CPI, monthly



Source: Bloomberg, FactSet, Standard & Poor's, J.P. Morgan Asset Management.

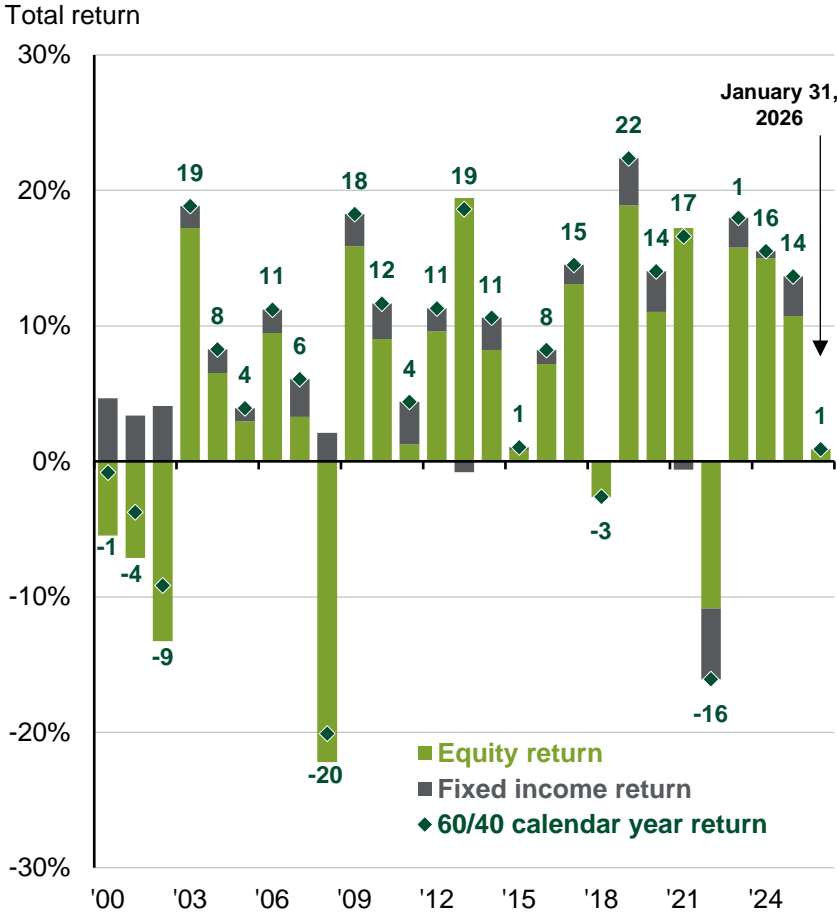
Total 60/40 real yield may not sum due to rounding. 60/40 portfolio nominal yield is calculated by taking the sum of the S&P 500's dividend yield and the yield to worst of the Bloomberg U.S. Aggregate multiplied by their respective weights in the portfolio. Analysis is based on month-end data. For the current month, we use the most recent core CPI figures until the latest data are available. Past performance is not a reliable indicator of current and future results.

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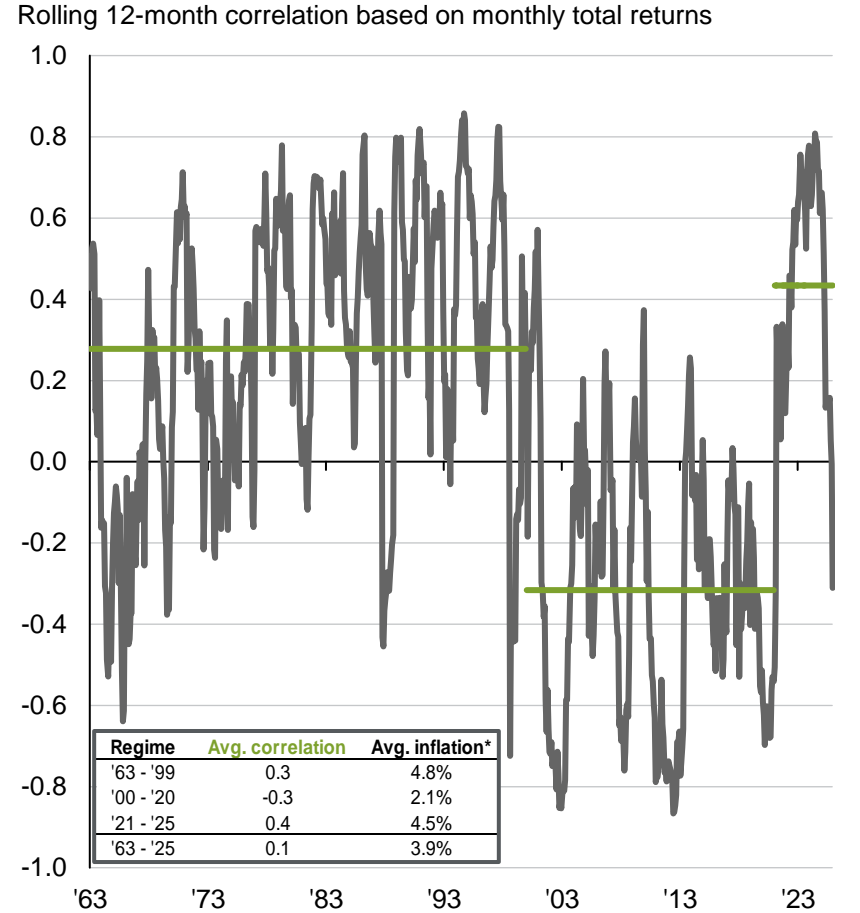


# It's hard to diversify if stocks and bonds move together.

## 60/40 portfolio annual return decomposition



## S&P 500 / U.S. 10-year Treasury correlation



Source: Bloomberg, FactSet, Haver Analytics, LSEG, Standard & Poor's, J.P. Morgan Asset Management.  
 (Left) The 60/40 portfolio is 60% invested in the S&P 500 Total Return Index and 40% invested in the Bloomberg U.S. Aggregate Total Return Index.  
 (Right) \*Simple average of the year-over-year percent change in headline CPI during each period. For the current month's inflation data, we use the most recent headline CPI figures until the latest data are available. Past performance is not a reliable indicator of current and future results.  
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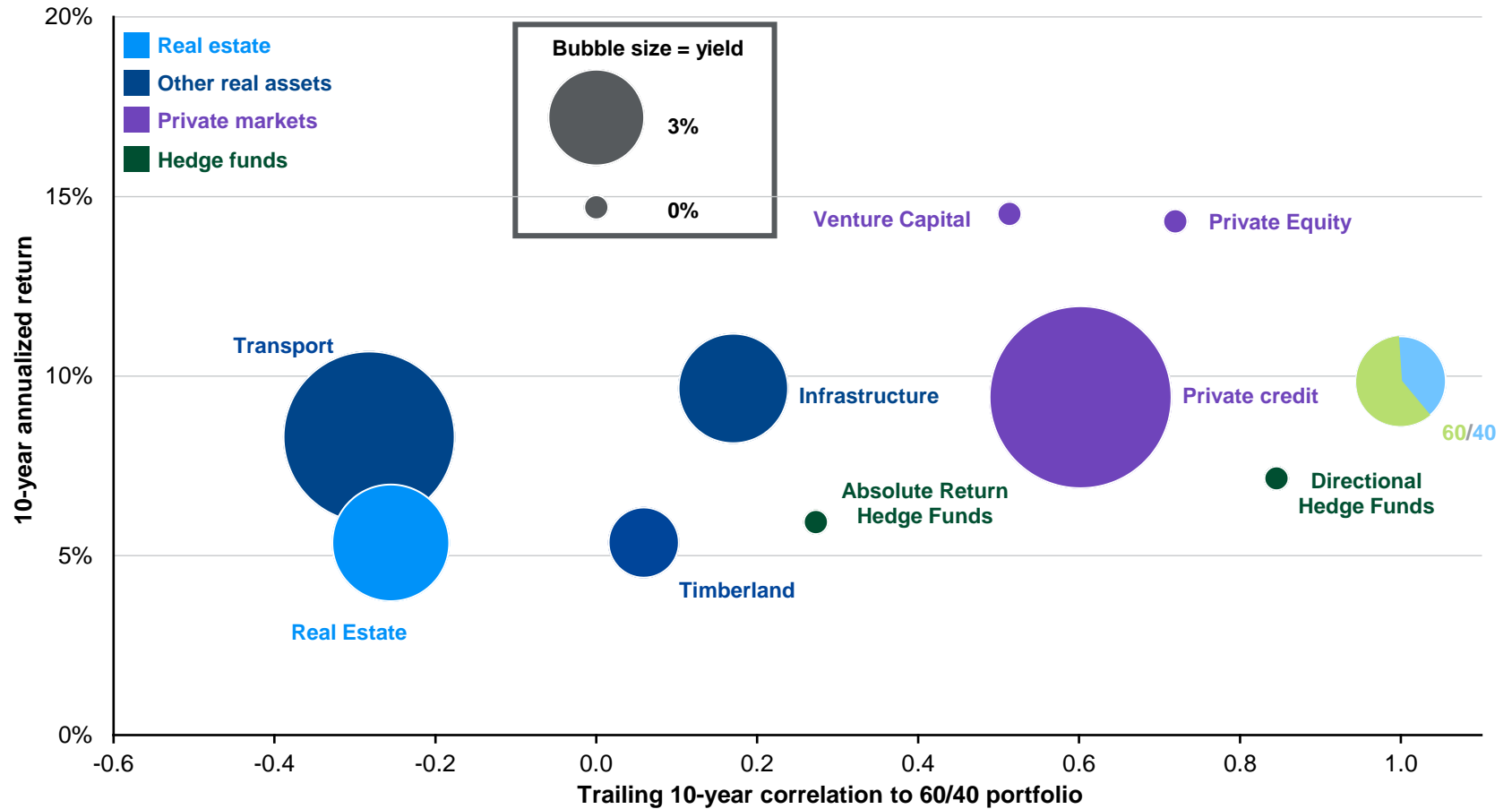


# Alternatives allow investors to solve for various outcomes.

Alternatives in portfolios

## Correlations, returns and yields

10-year correlations and 10-year annualized total returns, 4Q15 – 3Q25



Source: Burgiss, Cliffwater, FactSet, MSCI, NCREIF, PivotalPath, J.P. Morgan Asset Management.

All categories are global, except for timberland and private credit, which are U.S. Correlations are based on quarterly returns over the time period indicated. A 60/40 portfolio is comprised of 60% stocks and 40% bonds. Stocks are represented by the S&P 500 Total Return Index. Bonds are represented by the Bloomberg U.S. Aggregate Total Return Index. 10-year annualized returns are calculated based on the time period indicated. "Absolute Return Hedge Funds" represent asset-weighted returns from the PivotalPath Global Macro and Relative Value indices. "Directional Hedge Funds" represent asset-weighted returns from the PivotalPath Credit, Equity Diversified and Event Driven indices. Private credit represents direct lending returns and yields from the Cliffwater Direct Lending Index. All other indices and data used for alternative asset class returns and yields are as described on pages 12 and 17 of the *Guide to Alternatives* based on latest data available. Transportation returns are shown on an unlevered basis and returns can be enhanced by adding leverage. Past performance is not a reliable indicator of current and future results. *Guide to Alternatives*. Data are based on availability as of January 31, 2026.



# Private equity offers access to a diverse set of companies.

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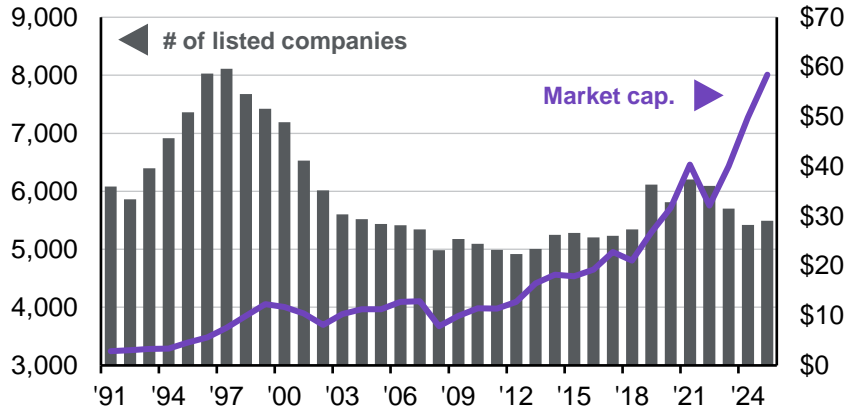
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Private equity

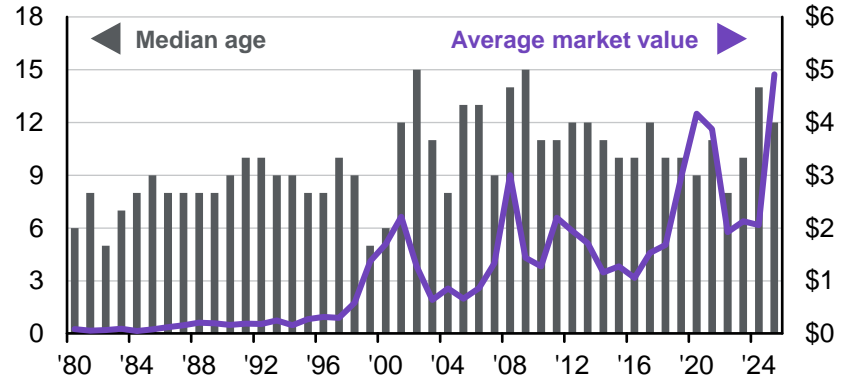
## Number of listed U.S. companies\* and market cap.

Count, S&P 500 market capitalization in USD trillions



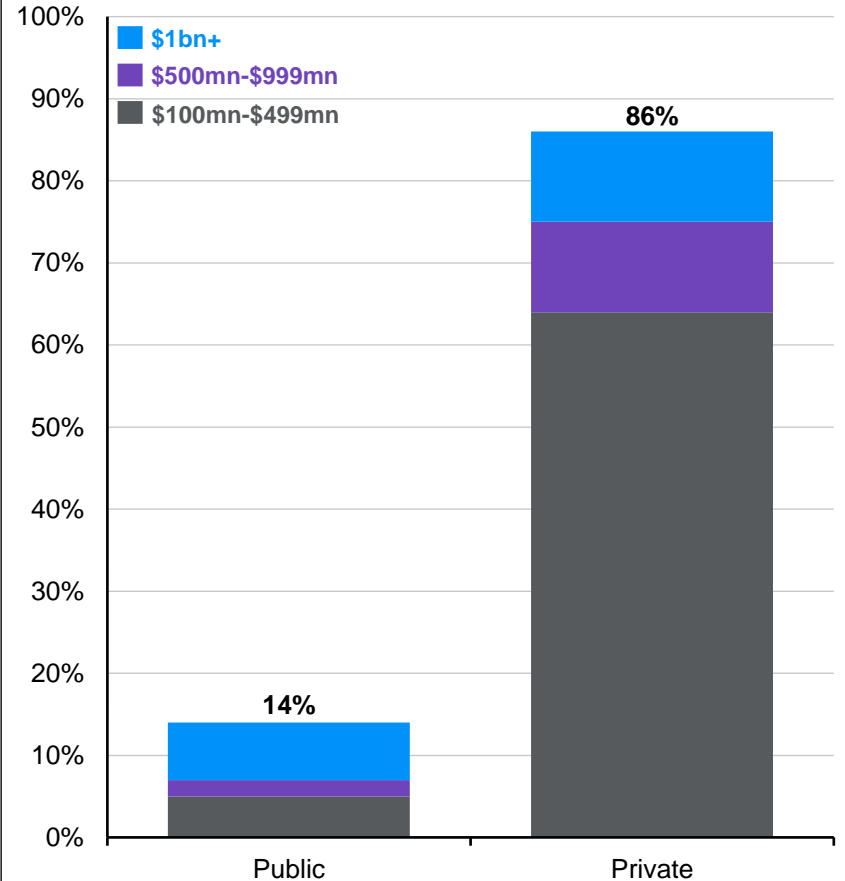
## Median age and average market value at IPO

Years, USD billions



## U.S. companies split public vs. private

Share of companies with annual revenue greater than \$100mn



Source: Bain and Company, FactSet, Jay Ritter – University of Florida, S&P Capital IQ, World Federation of Exchanges, J.P. Morgan Asset Management. (Top left) \*Number of listed U.S. companies is represented by the sum of the number of companies listed on the NYSE and the NASDAQ. (Bottom left) Average market value is calculated by dividing the total market value at first closing price by the total number of IPOs for each period. The sample is IPOs with an offer price of at least \$5, excluding ADRs, unit offers, closed-end funds, REITs, natural resource limited partnerships, small best efforts offers, banks and S&Ls and stocks not listed on CRSP (CRSP includes Amex, NYSE and NASDAQ stocks). *Guide to Alternatives*. Data are based on availability as of January 31, 2026.

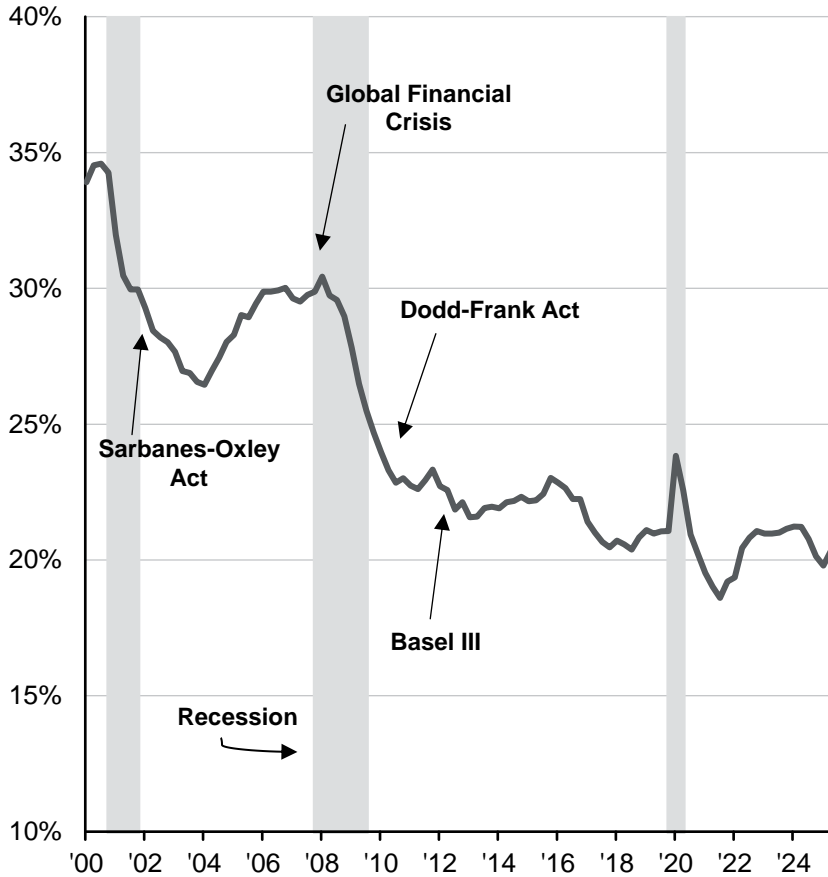


# Private credit has grown as traditional bank lending has retreated.

Private credit

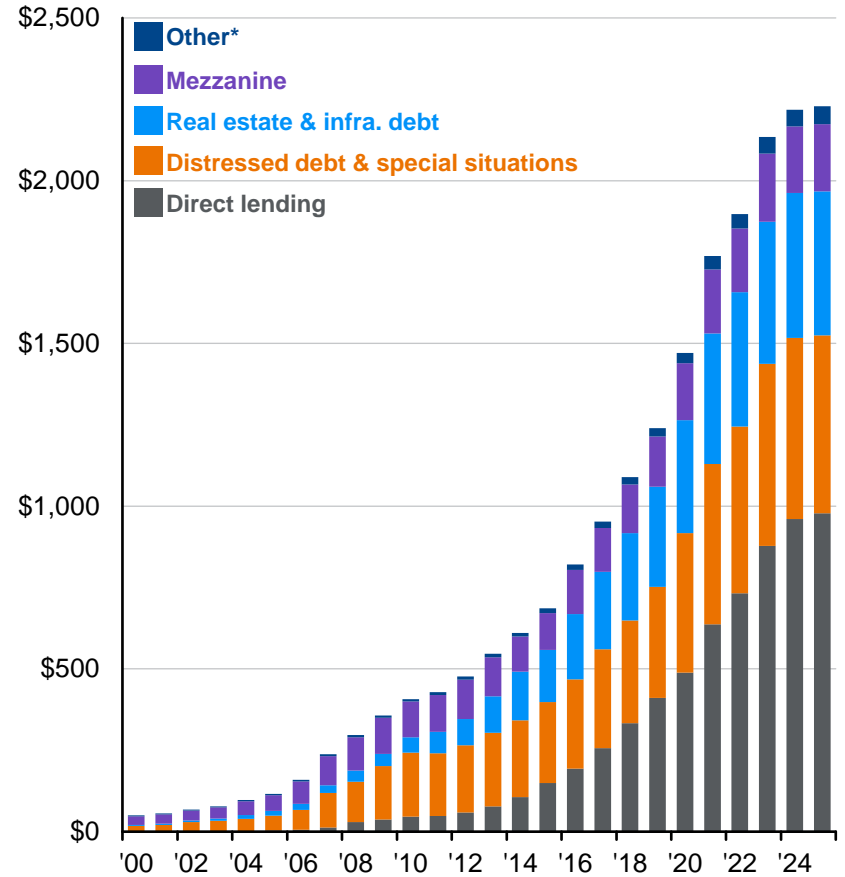
## U.S. bank lending

Share of total nonfinancial corporate debt, quarterly



## Global private credit AUM by type

USD billions, end of period



Source: Federal Reserve, Preqin, J.P. Morgan Asset Management. (Right) 2025 data are as of 2Q25. \*Other includes venture debt and fund of funds. Guide to Alternatives. Data are based on availability as of January 31, 2026.

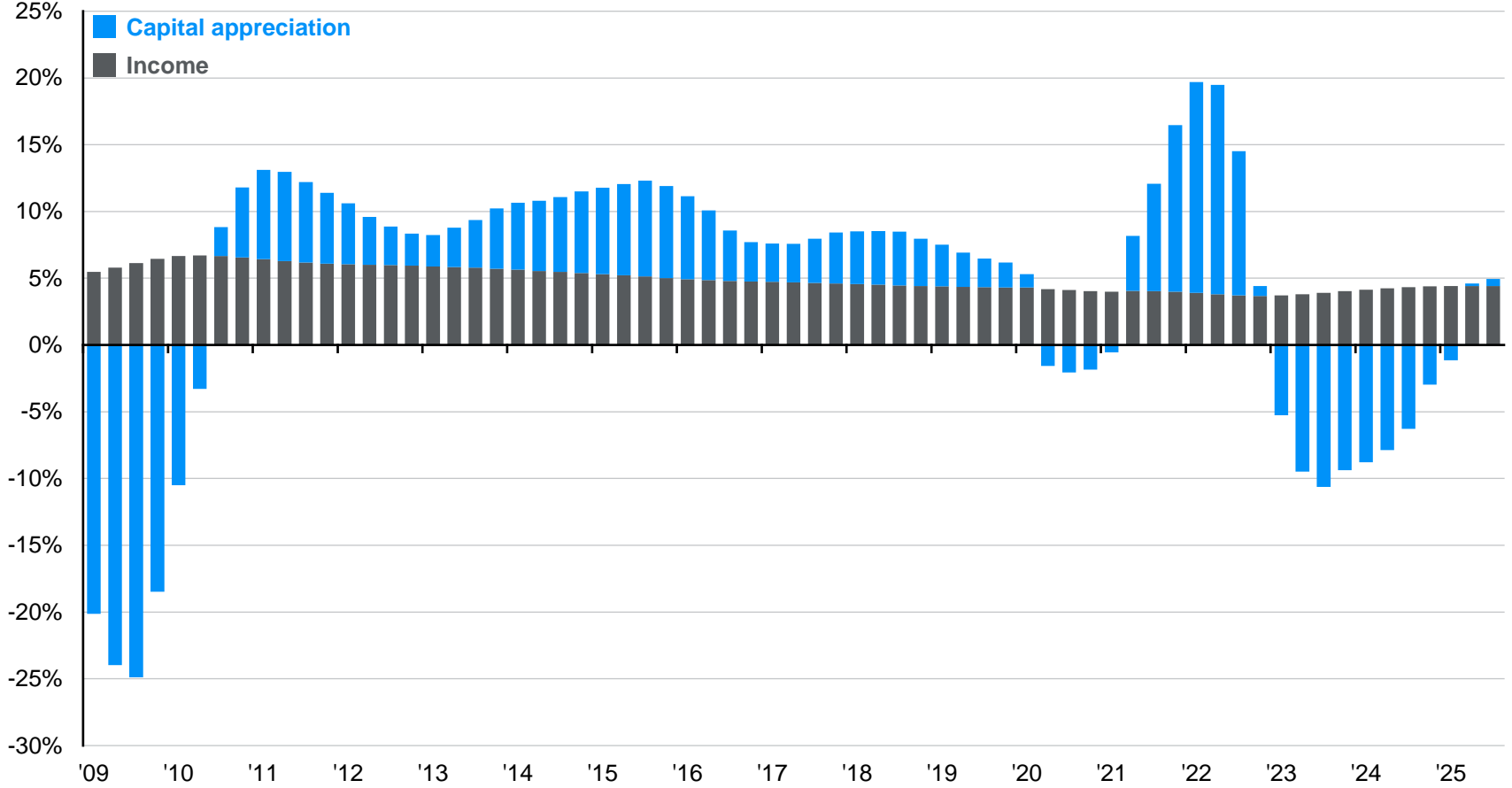


# Real assets, like real estate, have strong and durable income streams.

Real estate

## Global private real estate returns

Rolling 4-quarter returns from income and capital appreciation



Source: MSCI, J.P. Morgan Asset Management.  
 Real estate returns represented by the MSCI Global Property Fund Index. Data show rolling 4-quarter returns from income and capital appreciation. The chart shows the full index history, beginning in 1Q09. Past performance is not a reliable indicator of current and future results. *Guide to Alternatives*. Data are based on availability as of January 31, 2026.

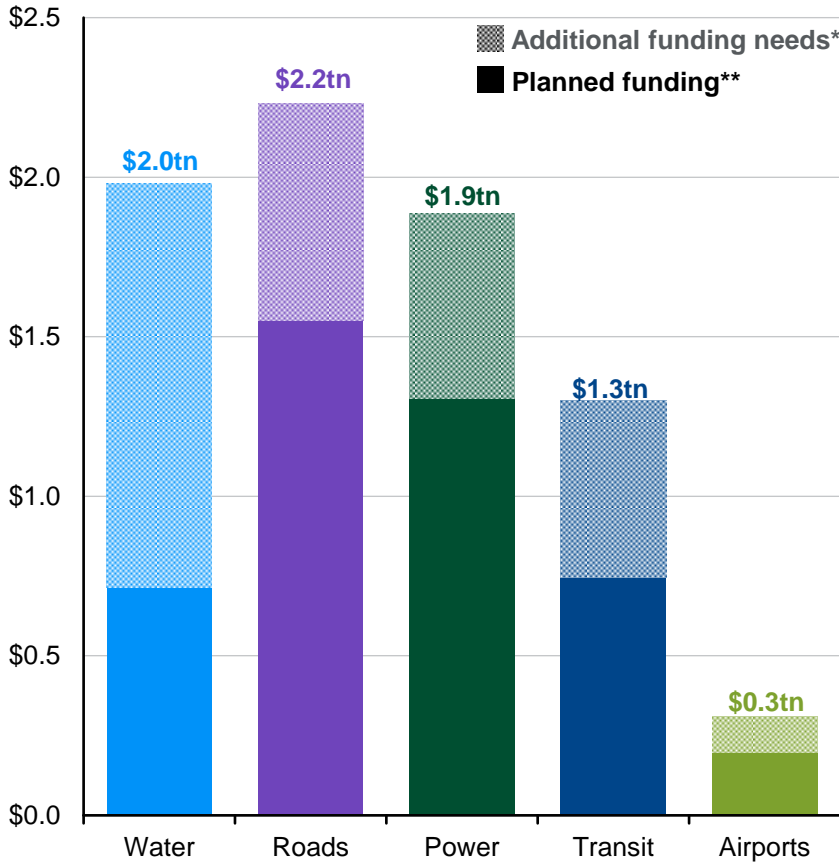


# Public funding gaps are driving the need for private infrastructure investment.

Other real assets

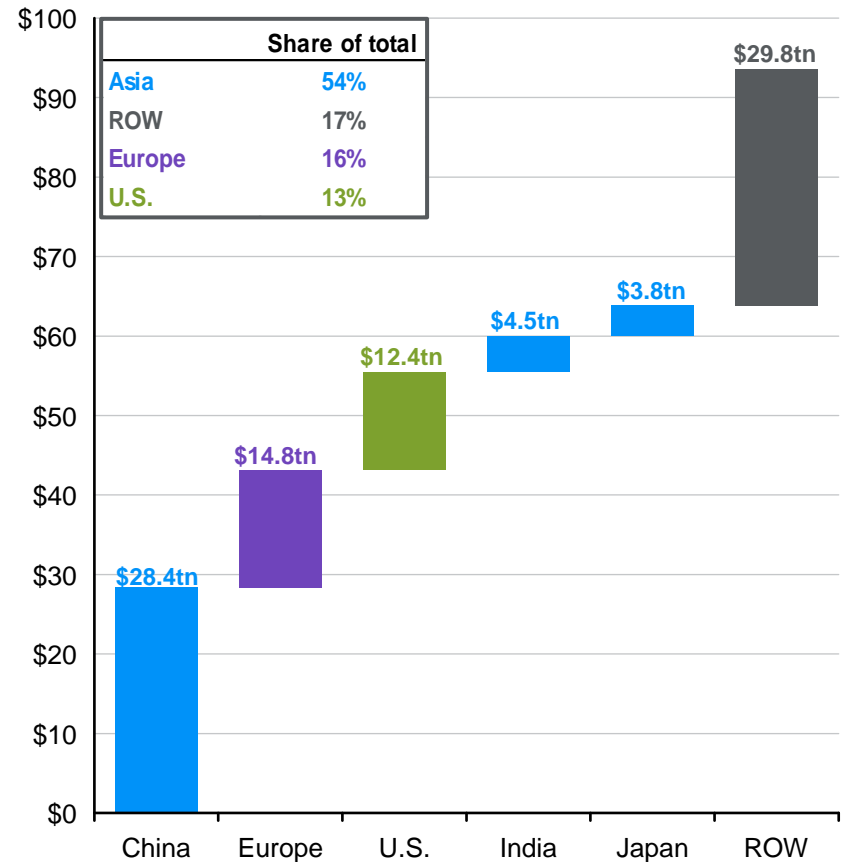
## U.S. infrastructure funding & funding gaps

USD trillions, 2024 – 2033, as of 2024



## Infrastructure investment needs by region

USD trillions, 2016 – 2040, constant 2016 prices



Source: American Society of Civil Engineers (ASCE), Global Infrastructure Hub by G20, J.P. Morgan Asset Management. (Left) Categories defined by the ASCE in the March 2025 "A Comprehensive Assessment of America's Infrastructure: 2025 Report Card for America's Infrastructure" report. \*Additional funding is the amount of funding needed to get each category to a "B" rating, or a state of "Good" repair, as defined by the ASCE. \*\*Planned public funding is the amount of investment from 2024 to 2033 that is currently in place by U.S. law. (Right) ROW= rest of world.

Guide to Alternatives. Data are based on availability as of January 31, 2026.



# Different types of investments vehicles are suitable for various types of strategies.

	← More liquid				Less liquid →
	Interval Fund	Non-Traded BDC	Non-Traded REIT	Tender Offer Fund	Drawdown Fund
Investor accessibility	●●● Suitability Requirements	●●○ Suitability Requirements	●●○ Suitability Requirements	●○○ Accredited Investors	●○○ Qualified Purchasers
Regular distributions	✓	✓	✓	X	Depends on fund
Liquidity (Ability to withdraw investment)	Quarterly (Limited)	At Board discretion	Best efforts basis	At Board discretion	No
Can it be gated? (Liquidity is restricted to protect investors)	Yes, typically with a 5% cap	Yes	Yes	Yes	Yes
Potential tax efficiency	●○○	●○○	●●●	●○○	●●○
Typically used for	Income Strategies (Private Credit, Core Real Estate)	Private Credit	Real Estate	Growth Strategies (Private Equity, Opportunistic Private Credit, Real Estate)	Growth and Opportunistic Strategies

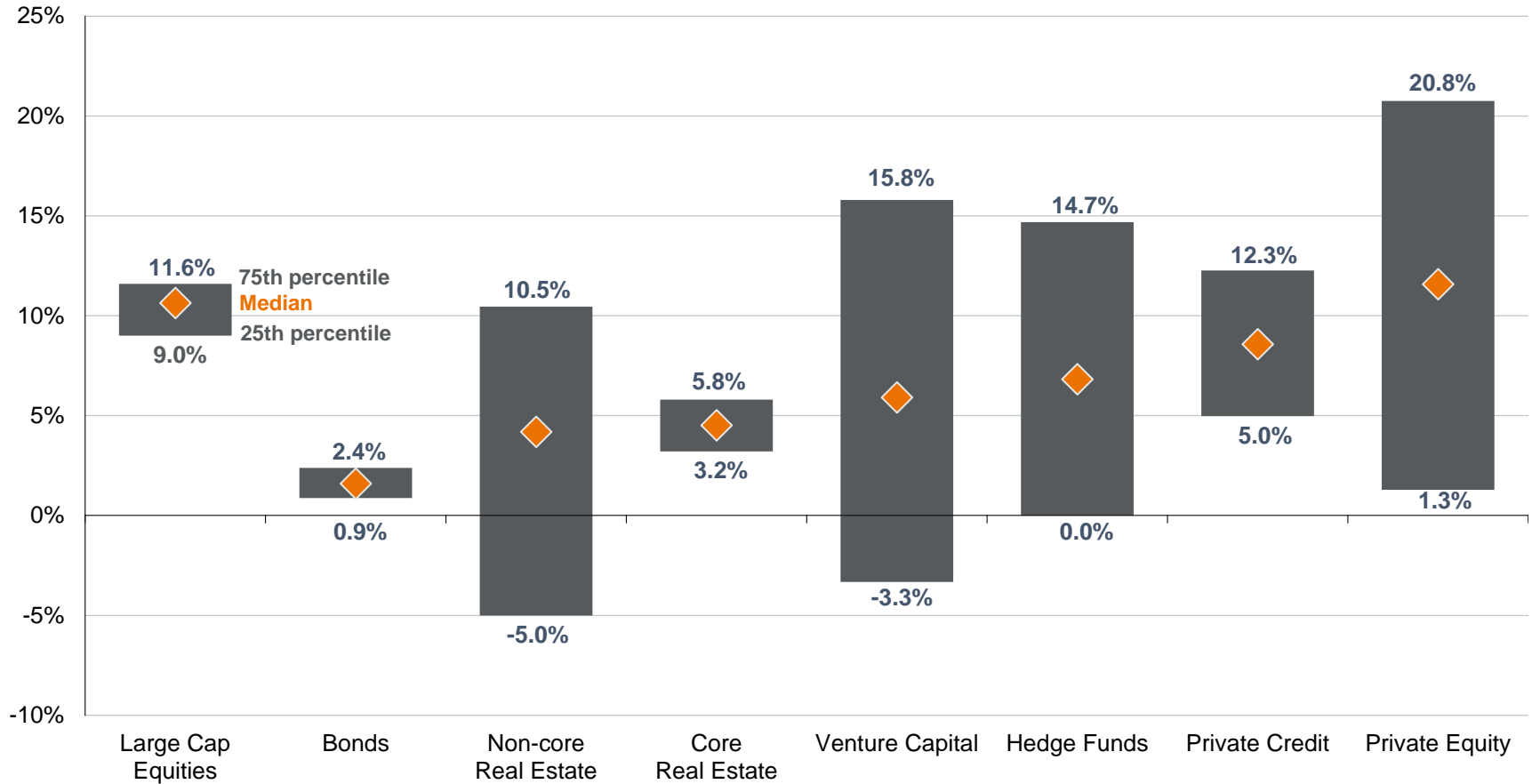
Source: J.P. Morgan Asset Management. Descriptions are illustrative, not exhaustive. Alternative investments carry more risk than traditional investments and are recommended only for long-term investment. Some alternative investments may be highly leveraged and rely on speculative investments that can magnify the potential for loss or gain. Diversification does not guarantee investment returns or eliminate the risk of loss. Review official offering documents and seek independent advice before investing. Past performance is not a reliable indicator of current and future results. Data are based on availability as of January 31, 2026.



# Manager selection is critical in private markets.

## Public and private manager dispersion

Based on returns from 4Q15 to 4Q25\*



Source: Burgiss, Morningstar, MSCI, PivotalPath, J.P. Morgan Asset Management.

All categories are global. Large Cap Equities and Bonds are based on the Morningstar Global Large Stock Blend and Global Bond (not hedged) categories, respectively. Core Real Estate is based on the MSCI Global Property Fund Index. Private Credit, Non-core Real Estate, Private Equity and Venture Capital are based on indices from the MSCI Private Capital Universe. Hedge Funds are based on the PivotalPath index. Manager dispersion is based on annual returns over the 10-year period indicated for: Large Cap Equities, Bonds and Hedge Funds. \*Manager dispersion is based on annual returns over the 10-year period ending 3Q25 for Core Real Estate. Manager dispersion is based on the 10-year internal rate of return (IRR) ending 3Q25 for: Private Credit, Non-core Real Estate, Private Equity and Venture Capital. Past performance is not a reliable indicator of current and future results.

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## Real estate

**Base rent** – The gross revenue from rental payments.

**Capitalization rate (Cap rate)** – The rate of return on a real estate investment property defined as the net operating income from the property divided by the current market price of the property.

**Cap rate spread** – The difference between the cap rate and a Treasury security with the same maturity.

**Core real estate** – High-quality properties in primary markets with high occupancy rates, credit-worthy tenants and long leases.

**Effective rent** – Base rent less rental concessions and tenant improvements.

**Gross absorption** – Space that became physically occupied in a specific period.

**Mezzanine debt** – Financing that is half-way between equity and debt by which the lender can convert to equity if the loan is not paid on time or in full.

**Net absorption** – Space that became physically occupied minus space that was physically vacated in a specific period.

**Net absorption rate** – Net absorption during a specific period divided by space available to lease at the start of that period.

**Occupancy rate** – The percentage of available space that is occupied.

**Real estate prime yield** – The real estate yield on a property at a prime location.

**Real estate net operating income** – Income after operating expenses but before interest, taxes, capital spending, depreciation and amortization.

**Real estate yields** – Annual income divided by total investment. Note that annual income, unlike NOI, does deduct interest costs so that real estate yields should be lower than cap rates.

**Real estate yield spread** – The difference between the yields and a Treasury security with the same maturity.

**Vacancy rate** – The percentage of available space that is unoccupied.

## Private equity

**Buyout fund** – Private equity fund that focuses on taking a majority stake or full control of mature, undervalued companies.

**Called capital** – The amount of capital wired to a fund that is “drawn down” over time as the general partner selects investments.

**Committed capital** – The specific amount of capital that a limited partner is obliged to provide to a closed-end fund for investments. The capital commitment is “drawn down” or “called” over time, meaning a portion of the commitment must be wired to the closed-end fund by a set date.

**Corporate mergers and acquisition (M&A)** – The consolidation of companies through financial transactions.

**Dry powder** – The amount of capital that has been committed to a private capital fund minus the amount that has been called by the general partner for investment.

**Earnings before interest, taxes, depreciation and amortization (EBITDA)** – A broad measure of the cash profit generated by a company’s operations.

**Enterprise value (EV)** – The total value of a company including equity and debt.

**General partner (GP)** – The managing partner of a limited partnership. The general partner is managed by the asset management team responsible for making fund investments (i.e., the intermediary between investors with capital and businesses seeking capital to grow).

**Growth fund** – Private equity fund that targets firms with the potential for scalable and renewed growth.

**Initial public offering (IPO)** – When shares of a private company are made available to the public for the first time.

**Internal rate of return (IRR)** – The dollar-weighted internal rate of return. This return considers the daily timing of cash flows and cumulative fair stated value, as of the end of the reported period.

**Leveraged buyout (LBO)** – The acquisition of another company using a significant amount of debt to finance the acquisition.

**Limited partner (LP)** – An investor in a limited partnership, which is a form of legal entity used for certain hedge funds, private equity funds and real estate funds.

**Middle market** – Companies having revenues between \$10 million and \$1 billion.

**Multiple of invested capital (MOIC)** – Calculation performed by adding the remaining (reported) value and the distributions received (cash out) and subsequently dividing that amount by the total capital contributed.

**Net asset value (NAV)** – This is the current fair stated value for each of the investments, as reported by the administrator of the fund.

**Private equity** – Equity capital invested in a private company through a negotiated process.

**Sponsor-backed acquisition** – Acquisition of a company by a private equity firm.

**Secondary fund** – Private equity funds that purchase existing assets from a primary private equity fund.

**Venture capital** – A specialized form of private equity, characterized chiefly by high-risk investment in new or young companies following a growth path in technology and other value-added sectors.



## Private credit

**Amend and extend** – A technique that allows an issuer to delay part of its loan maturity or amend existing terms through an amendment rather than a refinancing.

**Covenant-lite loans** – A type of financing that is issued with fewer restrictions on the borrower regarding collateral, level of income and loan payment terms, and fewer protections for the lender, including financial maintenance tests that measure the debt-service capabilities of the borrower.

**Direct lending** – A loan made by an investor or non-bank lender to a company.

**Distressed debt** – The securities of a company that has either defaulted, is under bankruptcy protection or is in financial distress and is moving toward default or bankruptcy in the near future.

**Hedge-adjusted yield** – The yield on a foreign currency denominated asset minus the cost of hedging the asset back into U.S. dollars. For assets in countries with short-term rates that are lower than U.S. rates, the hedge-adjusted yield will be lower than the yield denominated in foreign currency.

**Leveraged loan** – A commercial loan provided by a group of lenders that is either: 1) rated BB+ or lower, 2) not rated or rated BBB- or higher and has a base rate spread of 125 bps or higher and is secured by a first or second lien. This loan is structured, arranged and administered by one or several banks, and is then syndicated to other institutional investors. As such, this market is often referred to as the broadly syndicated loan market.

**Mezzanine commercial real estate debt** – Loan finance that is half-way between equity and secured debt, either unsecured or with junior access to security. A mezzanine fund is a fund focusing on mezzanine financing.

**Net IRR** – The dollar-weighted internal rate of return, net of management fees and carried interest generated by the fund. This return considers the daily timing of all cash flows and the cumulative fair stated value, as of the end of the reported period.

**Non-sponsored loan** – Credit provided to a business that is *not* wholly owned or majority owned by a private equity firm or another financial sponsor.

**Payment-in-kind (PIK)** – An interest payment in which the borrower makes an interest payment in forms other than cash. This includes, but is not limited to, a type of debt whose interest payments come in the form of additional debt accrued onto existing debt.

**Performing loans** – Loans that are not in default.

**Private credit** – Nonbank corporate credit provided through bilateral agreements or small “club deals” outside the realm of public securities or commercial banks. This definition excludes bank loans, broadly syndicated loans and funding provided through publicly traded assets such as corporate bonds.

**Special situations** – Non-traditional financing scenarios for distressed or urgent borrower needs.

**Sponsored loan** – Credit provided by a non-bank lender to a business that is either wholly owned or majority owned by a private equity firm or another financial sponsor.

**Syndicated loan** – A loan extended by a group of financial institutions, often referred to as a loan syndicate, to a single borrower.

## Hedge funds

**Distressed securities** – Funds that invest in debt and equity securities of firms in reorganization or bankruptcy.

**Long/short (L/S) equity** – Funds that involve long and/or short positions in equity securities deemed to be under- or overvalued, respectively. Exposures to sectors, geographies and market capitalizations are often flexible and will change over time.

**Merger arbitrage/event-driven** – Funds that invest in opportunities created by significant corporate transactions and events that tend to alter a company’s financial structure or operating strategy.

**Opportunistic/Macro** – Funds that involve investments in a wide variety of strategies and instruments, which often have a directional stance based on the manager’s global macroeconomic views.

**Relative value/Arbitrage** – Funds that involve the simultaneous purchase and sale of similar securities to exploit pricing differentials. Strategies in this sector offer potential to generate consistent returns while minimizing directional risk.



# J.P. Morgan Asset Management – Risks & disclosures

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