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Private Assets in Portfolios: Reassessing the Strategic Case

The private credit industry has been under intense focus in the early months of this year, with questions being raised about its role in portfolios. The Achilles heel of the industry has always been the charge that it is untested, at least in its present form, in a default cycle. Do recent developments mark such a fear coming to fruition?

In this note, we take a strategic cross-asset view of the role of private credit in portfolios. There has undoubtedly been a deterioration in sentiment toward the asset class. However, so far at least, this appears to reflect a mismatch between investor expectations around liquidity and the underlying reality of the asset class rather than a credit event per se.

From a cross-asset perspective, we need to compare private credit to opportunities that are lackluster elsewhere: the lack of an illiquidity premium in private equity; expensive and concentrated public equities; tight spreads in public credit; and inflation risk for long-duration bonds. Hence, we maintain a strategic low-return view (although not a bearish one).

There are genuine open questions about how private credit could behave from here. It is less attractive than it was two years ago on an absolute basis and defaults will likely rise, reinforcing the view that outcomes will depend increasingly on underwriting discipline, structuring and manager selection rather than a blanket return for the asset class.

However, it still has an illiquidity premium that, crucially, one can observe ex ante. For institutional investors trying to achieve real returns and incorporate sources of diversification, we think that private credit still plays an important role.

This note reviews the overall strategic case for private assets and outlines our framework for incorporating both public and private assets in portfolios.

Inigo Fraser Jenkins

Alla Harmsworth

Additional Contributors: Robertas Stancikas, Greg Chen and Maureen Hughes

After the draw of private assets being the dominant allocation narrative of recent years, 2026 has been a rude awakening, with the woes of the software sector causing alarm at its potentially deleterious impact on private credit. Both in client meetings and in market headlines, there have clearly been profound concerns about private credit. This note attempts to take a view on private credit from a strategic cross-asset point of view. Specifically, we try to achieve three aims:

1. Reassess the case for private credit from a macro cross-asset perspective in the wake of recent news.

2. Reiterate the broader strategic case for private assets *en masse* in portfolios.

3. Offer specific advice on how portfolio design should respond to the needs of combining public and private assets in one portfolio.

Recent events should, rightly, make investors re-assess their expectations for some private assets. The questions that have been raised so far in 2026 are, in theory at least, potentially existential for the asset class, in particular private credit. The negative headlines about private credit have led to a wave of "I told you so" commentary. This development is probably inevitable for an asset class that (a) has seen huge inflows in recent years, (b) has been untested in a default cycle in its current form and (c) involves fees that are higher in absolute terms than fees for traditional investments in public markets (though we would argue that it is net-of-fee return that counts rather than the headline fee itself). Is this reaction correct? What should investors think about the asset class today?

Private credit is not a panacea. Having said that, our central message is that the recent storm is more about liquidity in certain ways of accessing this market than the real credit event that has long been the fear about the asset class. Investors do not have the luxury of simply not investing, especially given our view that equilibrium inflation levels are going up. In this context, there are no easy options for investors in an environment where all asset classes are essentially fully valued and bring their own risks, be it concentration for equities, tight spreads in public credit, or inflation and fiscal sustainability for government bonds. The conclusion that we draw is that private debt still has a role to play in a broad portfolio and that it is part of a strategic higher allocation to private assets reflecting a shift in the locus of capital raising. We also, despite all the brouhaha, still prefer private credit to private equity. The current episode does, however, highlight the point that investors need to be clear about their expectations for liquidity before investing in the asset class. Expectations around returns, defaults and liquidity in private credit will likely need to evolve, and we review that point in this note. However, private credit still very much has a role in institutional portfolios.

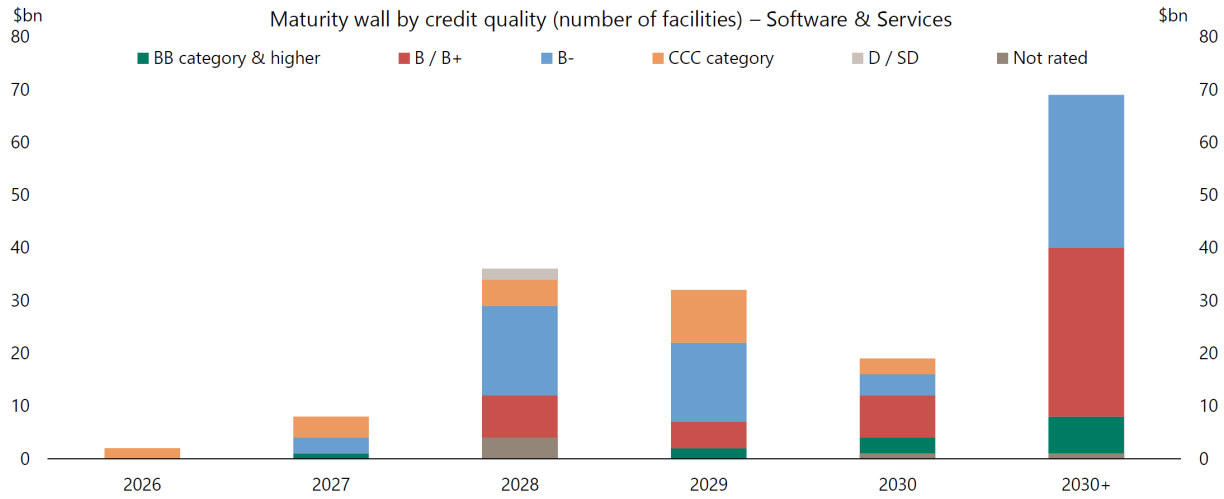
The Case for and Against Private Credit

Recent months have seen a significant increase in redemption requests from semi-liquid funds, leading some managers to enforce existing quarterly limits. This will likely weigh for some time to come on the minds of investors who perceived such funds as liquid; if they were expecting to achieve a given level of liquidity in such funds, that expectation might be re-assessed.

However, from where we stand today, this looks much more like a question about realized liquidity, and expectations about liquidity, rather than an actual credit event per se. If this is the case, then this issue is more about a set of investment structures than the large-scale credit problem that has always been the structural fear with private credit which, as is correctly pointed out, is the untested threat to the asset class at a large scale. That is not to say that problems don't exist: the flow of capital into the asset class has shifted the bargaining power of lenders vs. borrowers, and possible disruption for key sectors in the economy could continue to act as a catalyst for concern.

There is a bear case in sectors such as software that are potentially newly challenged by AI. It is not the current ability to pay back loans that is the issue; instead, it is the longer-term revenue path that is under scrutiny. There is also the challenge of the next couple of years seeing a wall of loans maturing (*Display 1*).

DISPLAY 1: SOFTWARE SECTOR DEBT-MATURITY PROFILE



Past performance does not guarantee future results.

As of February 26, 2026

Source: PitchBook | LCD; Morningstar LSTA US Leverages Loan Index, Apollo and AllianceBernstein (AB)

The software sector has clearly been at the epicenter of recent worries about private credit. Given the extensive coverage of this issue, there is no point in spelling it all out again here. Software accounts for around 20% of private-credit loans (with some private-debt fund exposure significantly higher), and so is significant for the asset class. Moreover, a preference for lending against recurring revenue rather than profits means that the threat of AI disruption to the long-term revenue outlook calls the quality of the sector's credit into account.

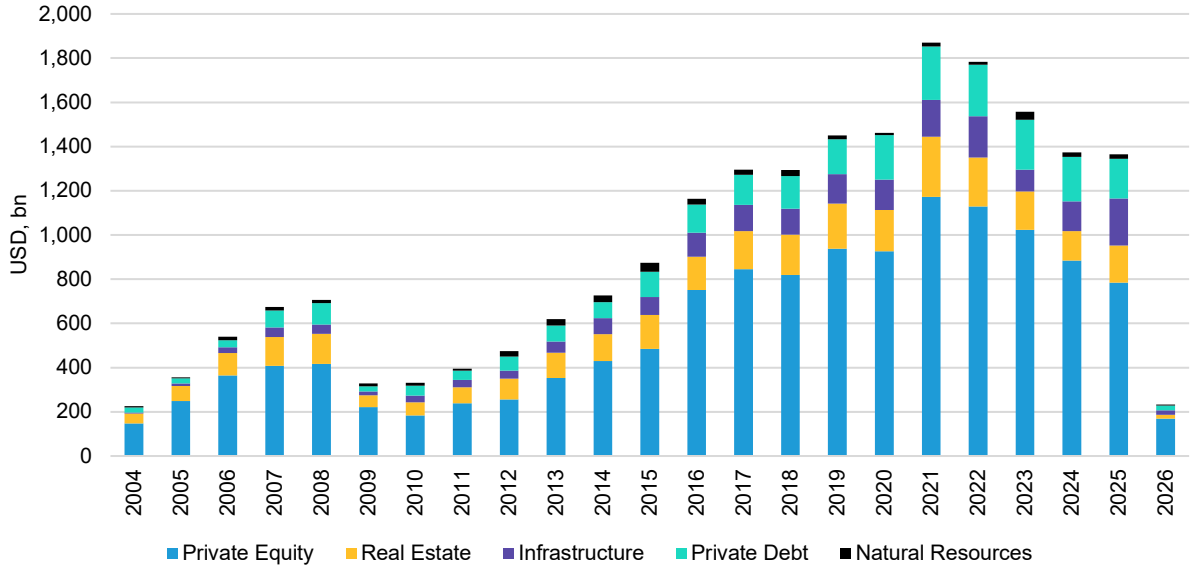
However, against that concern the usual loan-to-value ratio for the software sector is about 30%, which implies a comfortable equity cushion. Thus, the AI disruption is not necessarily a credit problem if the company was underwritten appropriately. AI is a potential challenge to the software sector, though the somewhat indiscriminate nature of the sell-off in the sector implies that the importance of moats, for example relating to sector-specific, regulatory concerns or questions of trust, have yet to be incorporated. It is likely that parts of the broader software sector suffer headwinds, while other parts actually receive a tailwind. On the equity side, the de-rating of the software sector down to the market multiple it last held before the rise of the software-as-a-service model a decade ago implies that, if anything, we are more inclined to buy rather than sell the sector, albeit with stock specifics very much in mind.

For private credit overall, the big fear is that the sector in its present form, and many of the individuals tasked with running private-credit funds, have not been tested in a default cycle, although parts of the asset class have seen this, e.g., in COVID and the rapid rate rise of recent years. A consequence of this state is that dispersion will likely widen, with differences emerging based on manager experience, sector expertise and workout capability. Although this constitutes a worry, one advantage of the sector is that at least the illiquidity premium offered on a given deal, if there is one, is observable ex-ante. This is an important difference from private equity and a core part of thinking about the long-run return to expect from the asset class.

For institutional investors who genuinely have a time horizon measured in years and that do not face the risk of a mismatch of liquidity, then the current headlines don't appear to negate the case for an allocation to private credit.

It is hard to track live flows in the private-asset industry, but it is clear from looking at capital raising in recent years that the flows into direct lending and core private-equity funds have already started to contract. The global capital raised for private debt and private equity in 2025 was 11% less than in 2024, while capital raised for venture and buyout funds was down 21% and 16%, respectively (*Display 2*).

DISPLAY 2: GLOBAL PRIVATE CAPITAL RAISED, BY FUND TYPE



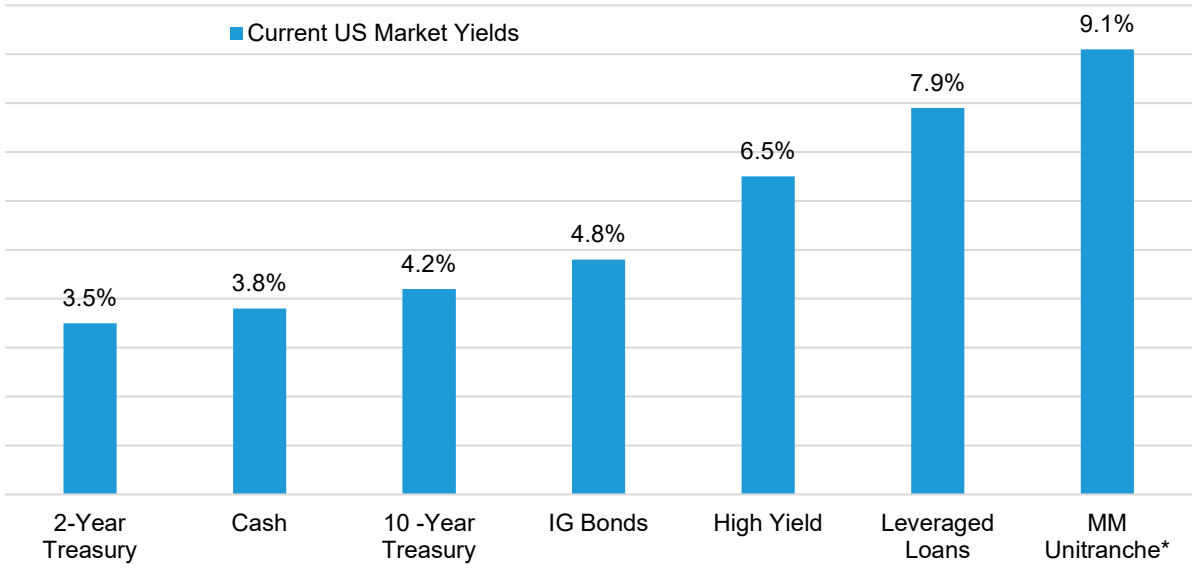
Past performance does not guarantee future results.

As of March 25, 2026

Source: Preqin and AB

The asset class is, from a macro perspective, less attractive than it was, say, three years ago. The inflow of capital has shifted the negotiating balance between investors and borrowers more in favor of the latter, with this being reflected in prices and also terms on offer. Nevertheless, private debt still offers a significant yield pickup over public markets (*Display 3*).

DISPLAY 3: COMPARING YIELDS / ILLUSTRATIVE-YIELD PROFILES FOR CREDIT ASSETS
MIDDLE-MARKET DIRECT LENDING OFFERS ATTRACTIVE YIELDS RELATIVE TO OTHER FIXED-INCOME ASSET CLASSES DUE TO A SIGNIFICANT ILLIQUIDITY PREMIUM



Past performance is not necessarily indicative of future results. There can be no assurance that any investment objectives will be achieved.

Cash is represented by the 30-day average Secured Overnight Financing Rate ("SOFR"). Two-year Treasury and 10-Year Treasury are published by the US Treasury Department and reflect the daily Treasury par yield curve as of December 31, 2025. Investment Grade ("IG") Bonds are represented by the Bloomberg Barclays U.S. Corporate Investment Grade Index, Leveraged Loans by the MStar/LSTA US Leveraged Loan 100 Index, and High Yield by yield to worst. An investor may not be able to invest directly in the indices.
*Illustrative private middle market yields are representative of average yields tracked by LSEG LPC throughout 4Q25.
As of December 31, 2025
Source: St. Louis Federal Reserve (Cash), Bloomberg Barclays (IG & HY Bonds), Department of the Treasury (two-year & 10-year Treasuries), MStar/LSTA (Leveraged Loans) and AB

We update our top-down model for the expected return on private credit in *Display 4*. Forecasting a return for the overall asset class is different from forecasting the returns on a single deal, but our approach is to assume that the return can be written as:

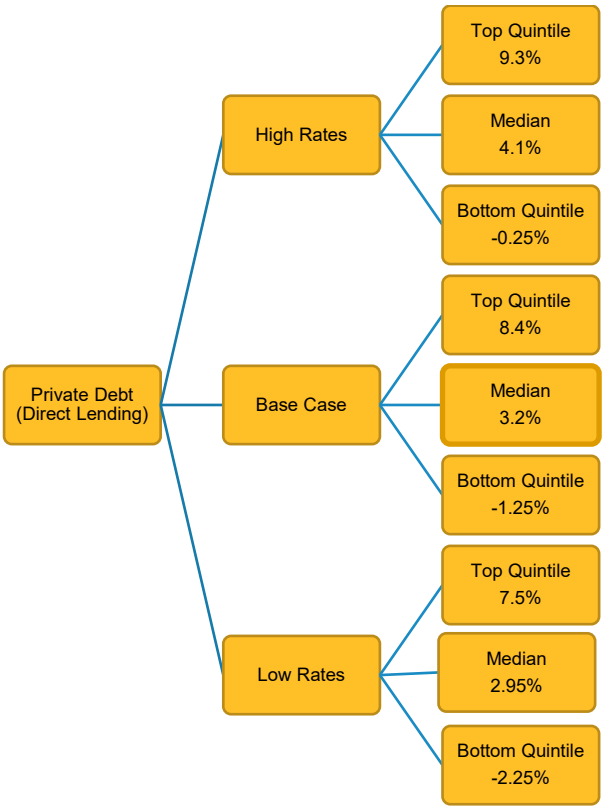
Private debt net real return = base rate + credit spread – default loss – fees – inflation

For our base case, we assume the same 3.5% base rate (SOFR) and a 5.2% private credit spread over SOFR. This equates to broadly a 250 bp spread over public high yield. To be conservative in response to current fears around the asset class, we increase the forecast loss from defaults to be 1% pa[1]. The model further assumes a 0.75% management fee, and we use a 7% hurdle rate over which a 10% carry fee is levied. We assume 3% inflation. Thus, we have:

Private debt net real return = 3.5% + 5.2% –1% – 1.5% – 3% = 3.2%

[1] Stephen Nesbitt, Fran Beyers, Jeff Topor and Riley Moore, *2025 Q3 Report on U.S. Direct Lending*, 2025 Cliffwater LLC, February 26, 2026

DISPLAY 4: FORMING EXPECTED RETURNS FOR PRIVATE CREDIT



Past performance does not guarantee future results.

Simulated or hypothetical performance results have certain inherent limitations. Simulated or hypothetical trading programs in general are also subject to the fact that they are designed with the benefit of hindsight. No representation is being made that any account will, or is likely to, achieve returns or a volatility profile similar to those being shown. The base case assumes a 3.5% base rate and a 5.2% credit spread. It also assumes a 1% annual loss from defaults, a 0.75% management fee and a 10% carry fee over a 7% hurdle rate. We assume 3% inflation. The "High Rates" and "Low Rates" scenarios assume a 1% higher and lower base rate respectively, holding everything else constant.

As of March 15, 2026

Source: Preqin Pro and AB

Aside from the long-run return forecast for private debt, proponents of private credit point to the potential for flexibility in what would otherwise end in a default. This potential for direct control in the case of asset owners and faster resolution is one of the benefits. The flip side of this is that the asset owner might end up owning equity, which was not what they wanted or thought about for the system in aggregate. It means there is a risk of an "extend and pretend" dynamic, in which problems are stored up.

Different investors will likely have varying views on this. A long-horizon institutional investor might find it preferable to a default in public credit, say. However, a shorter-horizon investor who needed greater liquidity might regard this as a major problem that could make the asset class harder to own. It is this issue about liquidity that is front and center in the recent negative reaction to private credit. Thus, an awareness of the implications of an asset that is genuinely illiquid are very important.

The other issue that is potentially negative for attitudes toward private credit is the role of borrowers resorting to payments in kind (PIK). The idea is that an interest payment can be deferred by adding it to the loan principal, i.e., increasing leverage. Such activity has now increased from 35% of loans to 55% in recent years.[2] How should investors think about this? It is similar to the debate about flexibility in restricting. On the one hand, it is another route to potentially "extend and pretend" and store up problems, while at the same time being a potentially useful tool allowing flexibility over the business cycle. In certain cyclical industries, for example, PIK can be a better match for their longer-term ability to pay. In cases where such a mechanism is

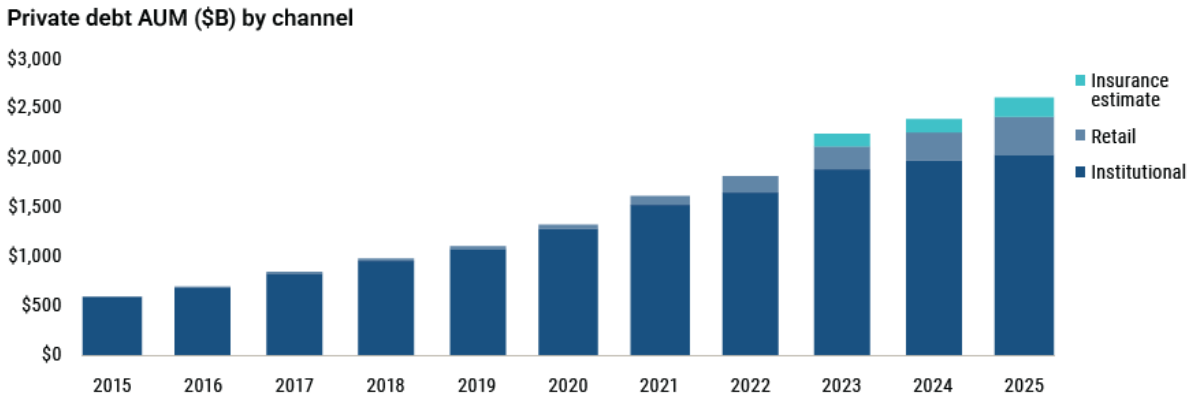
[2] Campbell Lutyens Private Credit Market Report 2026 Outlook

introduced ex post to relieve pressure on a company in difficulty, it may well have significantly less-benign implications. It seems to us that, as with flexibility of defaults, the extent to which this matters is really a feature of the investor and the way they think about the role of private credit within an overall portfolio that has multiple return streams with varying degrees of correlation. This is significant and means that, although the default case for the asset class in general might be positive, it will not be right for investors where this feature is not acceptable.

Given the untested nature of the asset class, why are investors still happy to allocate to it? A key issue here is that most asset classes have unattractive elements to them at present, in a strategic sense. This underlies our long-term outlook of a low-return world with less diversification on offer. Public credit faces a low return given tight spreads and small room for a cyclically weak period, the public equity market is fully valued and concentrated (we are strategically positive but do think there is complacency about volatility levels), nominal long-duration bonds face risks of higher inflation and are less likely to effectively perform their traditional task of diversifying equity risk. Finally, on average, private equity no longer, we think, offers an attractive illiquidity premium. There is a case for private equity given the wide dispersion of outcomes, but that case is about alpha and fund selection, not for the asset class en masse.

Could recent negative headlines become self-fulfilling if even those investors who don't have relatively significant liquidity demands also seek to withdraw assets? This does not appear to be a near-term problem, as the vast majority of private credit is in institutional vehicles (*Display 5*).

DISPLAY 5: GLOBAL PRIVATE DEBT AUM BY CHANNEL



Past performance does not guarantee future results.

Institutional AUM as of June 30, 2025. Retail and insurance figures as of December 31, 2025.

Source: PitchBook 2025 Annual Global Private Debt Report and AB

Other ways that the current episode could morph into a bigger problem would be rolling worries about other sectors' threat from AI having a broader impact. There is also the possibility of exaggerated business cycle risk from a period of lower growth and higher inflation pushing the floating credit costs to levels that the borrowers cannot afford, e.g., from a prolonged period of high oil prices raising stagflationary risks.

An important element here is that we consider private debt from the point of view of a long-horizon, sophisticated investor who needs to construct an overall portfolio at scale that can generate sufficient real returns and take advantage of any diversification on offer. We assume that this approach includes the ability to handle a given level of illiquidity. If there is not a tolerance for illiquidity, then the investor should question how much to allocate to strategies where the underlying asset is illiquid.

Reiterating the Strategic Case for Private Assets

If we "zoom out" from the headlines of the last two months, the strategic case for increasing exposure to private assets in general still stands (*Display 6*). This partly rests on the needs of investors in a world of lower real returns and less diversification but also on structural shifts that have nothing to do with investors.

DISPLAY 6: THE CASE FOR FURTHER GROWTH IN PRIVATE ASSET ALLOCATION...AND THE LIMITS

A Need for More Private Assets

Demand (from Investors)

- Prospect of a lower nominal return on public markets
- Need for diversification
- Need for inflation protection
- Exposure to sectors not represented in public markets
- Need for active return streams

Supply

- Dearth of young, high-growth companies coming to market
- Buybacks driving a shrinking stock of public equity
- Retrenchment of traditional providers of credit
- Borrowers recognizing greater flexibility of private capital

Emerging Limits on Private Market Allocation

- Liquidity is a greater concern:
  - Quantitative-easing-to-quantitative-tightening transition
  - Asset-owner portfolios are more illiquid.
  - More fragile liquidity in public markets
- Fees, which now constitute the lion's share of many fee budgets

Current analysis does not guarantee future results.

Source: AB

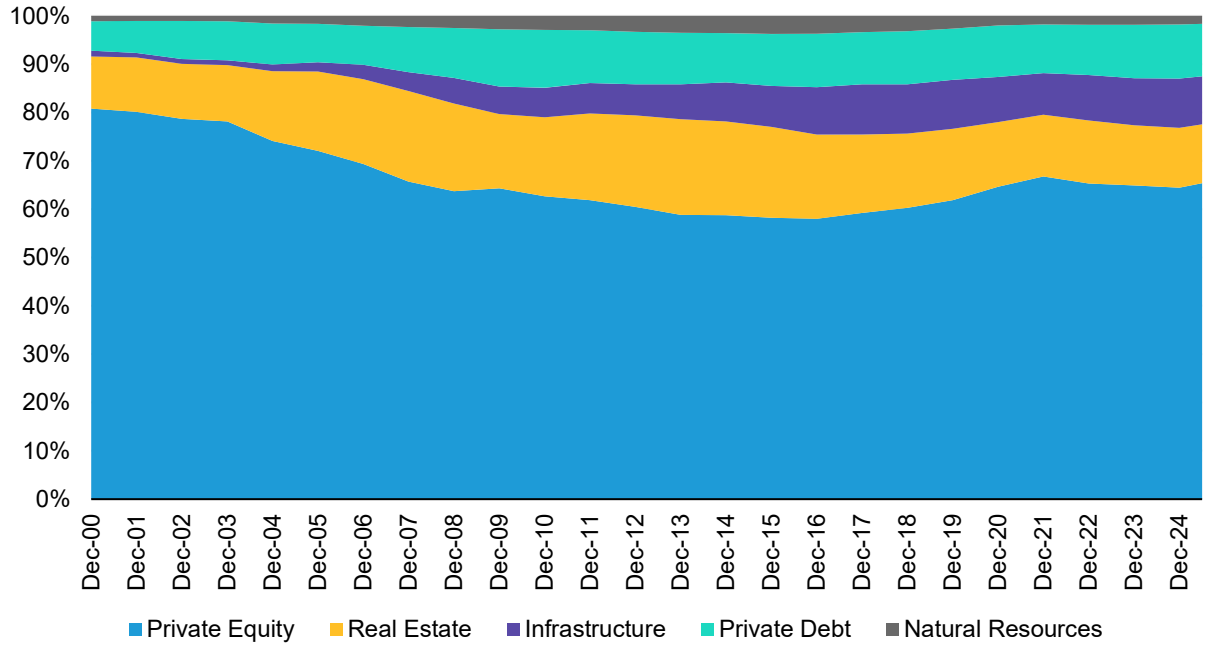
The backdrop is the likelihood of low real returns ahead. This projection rests on the combination of high valuations, lower growth forecasts and higher inflation. As a result, we forecast global real equity returns to be sub 4% p.a. for the next decade. Equally pressing is the need for diversification. The failure of long-duration bonds to diversify equity risk during recent selloffs in the wake of the war in Iran is symptomatic of a bigger problem. Since 2022, stock-bond correlation has on average been positive, and our view is that a world where inflation risks are not linked to higher growth (instead deglobalization, public debt level, climate etc.) implies that the equity-bonds correlation stays positive.

There is, of course, room for doubt about the diversification benefits of private debt. One thing we want to be clear about is that stale prices are not diversification; for any private asset, we profoundly worry if the absence of mark-to-market is presented as such. Instead, the case for diversification comes from the ability to buy return streams that, by virtue of their sector exposure or underlying economics, are different from what one buys in public equity markets.

Private markets, as a whole, offer a different sector exposure profile. As we show in *Display 7* and *8*, the key difference are that private markets offer a much larger exposure to real assets such as real estate and infrastructure, sectors that account for only a very small weight in public markets and that should provide diversification benefits to overall public-equity exposure.

As *Displays 8* and *9* show, technology is also the dominant sector exposure in both private-equity and private-debt allocations. However, compared to US public-equity markets, the technology share is lower and the overall sector exposure is more balanced. Also, private markets have notably higher weights in healthcare and industrial sectors.

DISPLAY 7: PRIVATE MARKETS CAN SUPPLY SIGNIFICANT REAL ASSET EXPOSURE



Past performance does not guarantee future results.

As of June 30, 2025

Source: Preqin Pro and AB

DISPLAY 8: SECTOR BREAKDOWN

Sector	MSCI USA Equity Index Weight (%)	Private Equity Weight (%)	Private Debt (Cliffwater Direct Lending Index) Weight (%)
Communication Services	10.62	5.5	15
Consumer Discretionary	9.93	10.9	11
Consumer Staples	5.33	5.3	3
Energy	3.52		1
Financials	12.35	13.7	11
Health Care	9.9	15.7	18
Industrials	9.56	17.3	10
Information Technology	32.16	27.1	23
Materials	2.17	3.5	3
Real Estate	2.03	0.8	1
Utilities	2.44	0.2	1
Other			2

Past performance does not guarantee future results.

MSCI USA Equity Index as of March 12, 2026. Cliffwater as of September 30, 2025. Private equity note: the exposure is based on Stepstone Private Equity Fund (STPEX).

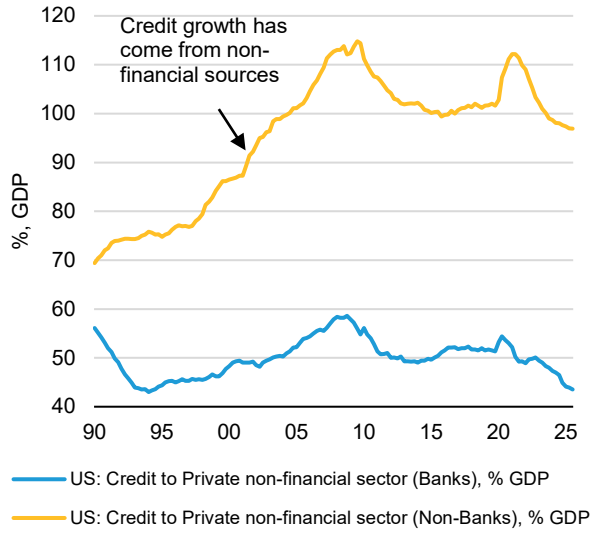
As of January 1, 2026

Source: Cliffwater, MSCI, Stepstone and AB

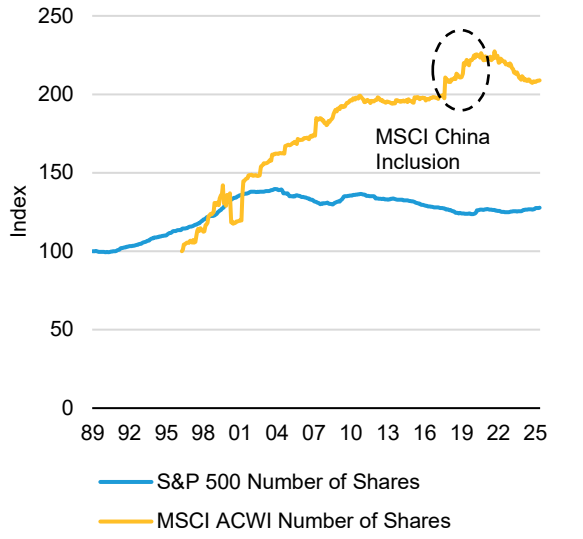
Alongside this, there is also a case for private assets, given the increase in private capital vs. public markets as a share of capital raising. There are multiple structural forces at work here, and hence this trend is unlikely to change anytime soon. The stock of public equity is shrinking due to the dearth of initial public offerings. Likewise, buybacks have constituted the dominant demand for US stock for decades, and we do not think they are likely to be proscribed. Even on a global basis, any increase in the number of shares in recent years has only come about because of changes in the inclusion factor for Chinese equities, which is not an economically real event. Likewise, the share of traditional bank lending in credit creation has been shrinking (*Display 9*). But corporations still need access to capital, hence there is a need for private capital to fill this gap.

DISPLAY 9: CASE FOR PRIVATE ASSETS: SUPPLY OF PUBLIC EQUITY AND TRADITIONAL CREDIT IS SHRINKING

ALL NET CREDIT GROWTH HAS COME FROM NON-BANK SOURCES: OVERALL PROVISION OF CREDIT TO THE PRIVATE SECTOR IN THE US



STOCK OF SHARES SHRINKS IN DEVELOPED MARKETS WHILE ONLY RISING IN EM FROM AD HOC CHINA INDEX INCLUSION FACTOR



Historical analysis does not guarantee future results.

Right-hand display: The circled area shows the impact of the change in the MSCI inclusion factor for China equities.

As of March 25, 2026

Source: Bloomberg, Macrobond, MSCI, and AB

The limit on private asset exposure, as we have articulated before, is likely liquidity.[3] We are seeing the liquidity issue emerge as a sharp concern this quarter. We argue that, even aside from the current issue of a potential mismatch in expectations of liquidity in the funds that have got into difficulty, liquidity should be a key constraint. This view recognizes the heightened liquidity risks in a world where institutional portfolios in aggregate have become more illiquid, shifts in market microstructure have made liquidity in public markets more fragile, and central bank liquidity is less plentiful.

The other aspect of this is a comparison across private assets. The overall allocation to private assets should rise in a world where there is a structural shift for more capital to be raised there, but which ones?

Our model for private equity as an asset class implies that, net of fees, the average investment in the average new private-equity fund will achieve no excess returns over public equity.[4] In that case, the reason for allocations into private equity is for the

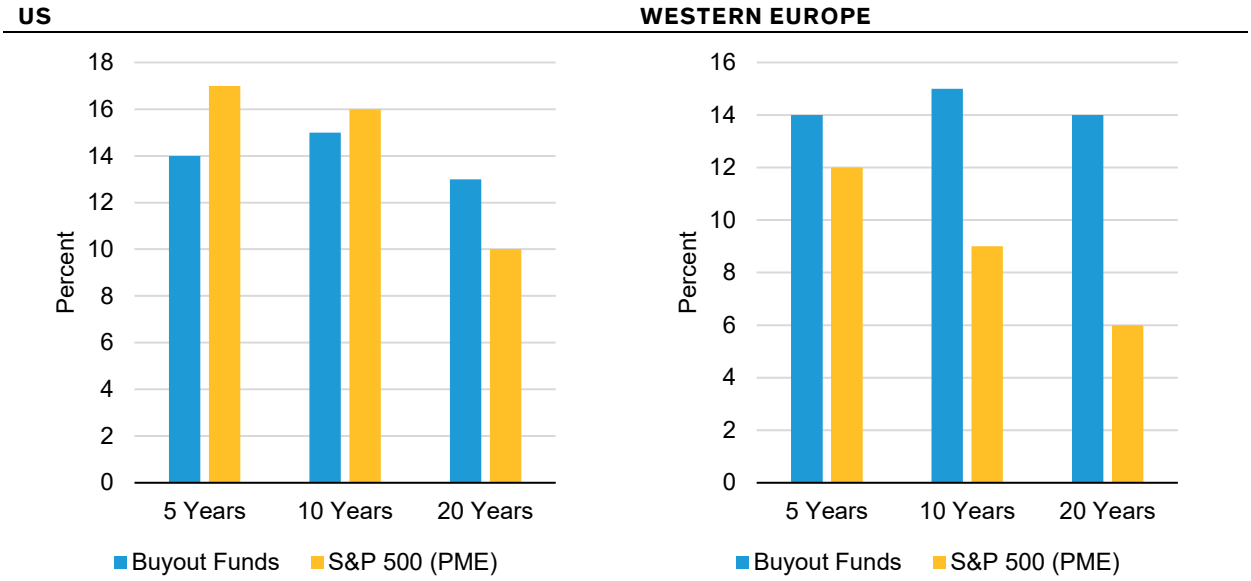
[3] Inigo Fraser Jenkins and Matthew D. Bass, *The Role of Private Assets in Strategic Asset Allocation: a Macro Perspective*, AllianceBernstein, May 10, 2023

[4] Ibid

"alpha" of top-quartile funds, but then we need to be very clear that this is an alpha and fund-selection decision, not an asset-class decision. Moreover, the quantum of that alpha must be considerably less than the return on the asset class overall.

There is evidence that this has been happening already. In the US over the last five and 10 years, the internal rate of return has been lower than the return from public markets (*Display 10*).

DISPLAY 10: US STOCKS HAVE OUTPERFORMED BUYOUT RETURNS OVER THE PAST DECADE, BUT PRIVATE EQUITY STILL LEADS IN EUROPE



Past performance does not guarantee future results.

Notes: data for US is calculated in US dollars; data for Europe is calculated in euros; public-market equivalent (PME) is calculated using the Long-Nickels index comparison method, an IRR-based methodology that makes meaningful comparisons between private-capital investments and indices. The methodology assumes buying and selling the index according to the timing and size of the cash flows between the investor and the private investment. Western Europe includes 32 countries, as defined by MSCI.

As of February 22, 2026

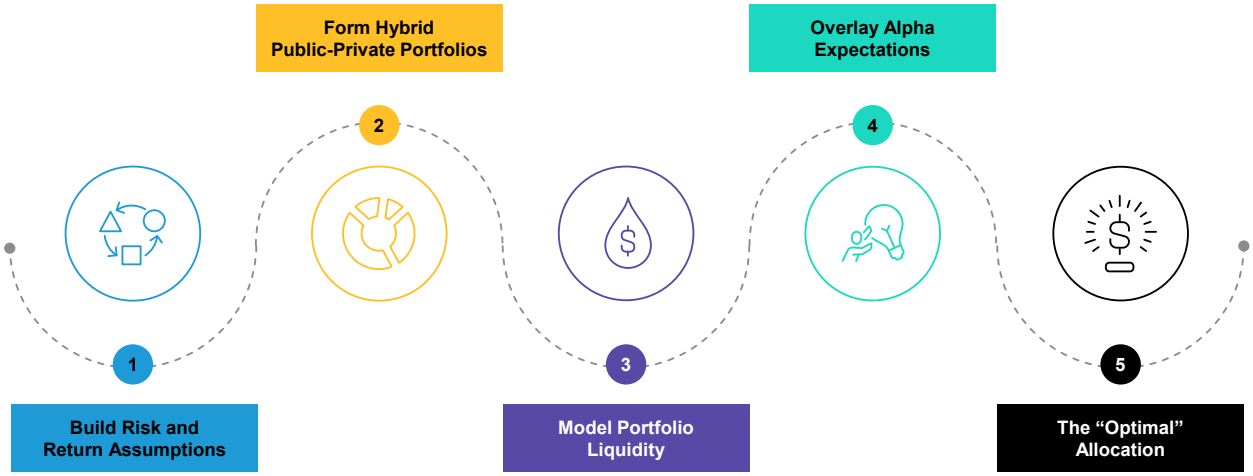
Source: MSCI and AB

This implies that the marginal flows into private assets are more likely to accrue to areas other than private equity.

Combining Public and Private Assets

How should investors incorporate private assets into their portfolios? *Display 11* shows our five-step approach of modeling an optimal private markets allocation for hybrid public-private portfolios.

DISPLAY 11: OUR APPROACH TO MODELING THE "OPTIMAL" PRIVATE MARKETS ALLOCATION



For illustrative purposes only.

As of December 31, 2025

Source: AB

Starting with Step one, in the table below we show our long-term return and risk assumptions for key public and private markets. The illiquidity of private assets is reflected by their much larger drawdowns compared with their public market equivalents in the case of a tail event that would necessitate a fire sale. The median expected return of private equity is close to the median expected return for global equities, while private credit offers a significant excess yield compared with the expected return from global high-yield bonds.

DISPLAY 12: STEP 1: RISK AND NOMINAL RETURN ASSUMPTIONS

	Tail Event	Normal Range			
	1% Percentile	20% Percentile	90% Percentile	Median	Risk
Private Equity	-10.4%	0.8%	15.5%	7.0%	21.1%
Private Debt	-6.6%	3.8%	9.8%	6.2%	11.6%
Global Equity	-4.2%	2.4%	13.2%	6.5%	14.9%
Global HY	-1.7%	2.9%	8.0%	5.1%	7.6%

Past performance does not guarantee future results.

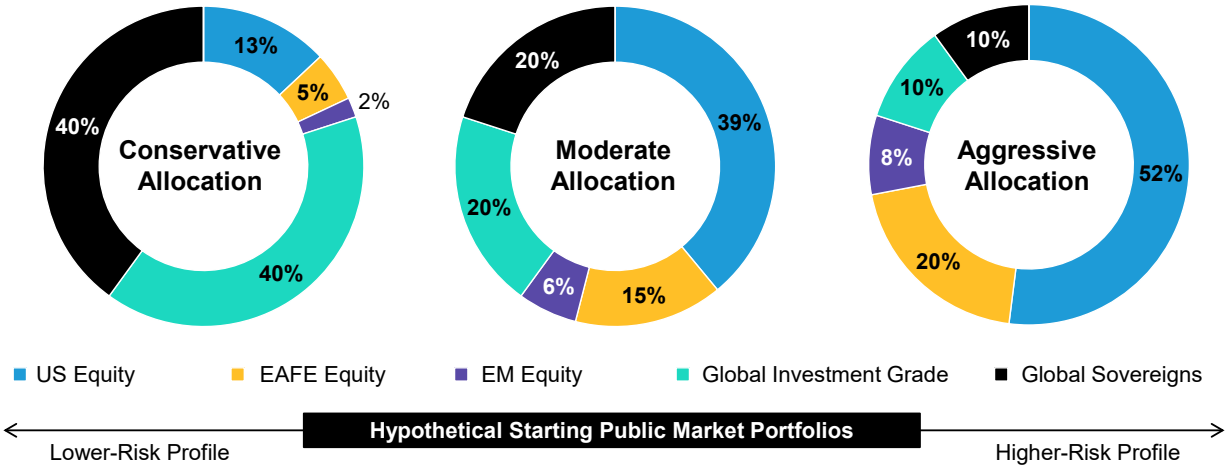
Forecasts are formed for a 10-year horizon. "Normal" range is defined as the 20th to 90th percentile, while tail event is defined as the first percentile. Returns are shown in US-dollar terms and fully hedged. Risk is defined as dispersion of cumulative returns over the horizon (expressed annualized).

As of June 30, 2025

Source: AB

Display 12 shows the starting model allocations of public-only portfolios across three risk categories: conservative, moderate and aggressive. This is a starting position to which we add allocations to private equity and private debt.

DISPLAY 13: STEP 2: FORM HYBRID PUBLIC-PRIVATE PORTFOLIOS



For illustrative purposes only.

As of December 31, 2025

EAFE: Europe, Australasia and the Far East; EM: emerging market.

Source: AB

As we outlined earlier, liquidity is a key consideration when incorporating private assets into a portfolio. *Display 14* shows liquidity risk as the probability of running out of funds during different investment horizons of 10 and 20 years at different spending rates and for different levels of private asset allocation. We only consider allocations where liquidity risk is below 10% for a 20-year investment horizon and below 5% for a 10-year investment horizon. The blue cells in the table below reflect the feasible private asset allocations at different spending rates. If allocations focus exclusively on private equity, liquidity risk rises significantly at the 20-year time horizon. And when looking at high spending rates of 5–6%, at 20-year time horizons private asset allocations are limited.

DISPLAY 14: STEP 3: MODEL PORTFOLIO LIQUIDITY

Spending Rate	Private Asset Allocation-All PE-10Y					
	0%	10%	20%	30%	40%	50%
2%	0%	0%	0%	0%	0%	0%
3%	0%	0%	0%	0%	0%	0%
4%	0%	0%	0%	0%	0%	0%
5%	0%	0%	0%	0%	0%	0%
6%	0%	0%	0%	0%	0%	1%

Spending Rate	Private Asset Allocation-50PE/ 50 PD-10Y					
	0%	10%	20%	30%	40%	50%
2%	0%	0%	0%	0%	0%	0%
3%	0%	0%	0%	0%	0%	0%
4%	0%	0%	0%	0%	0%	0%
5%	0%	0%	0%	0%	0%	0%
6%	0%	0%	0%	0%	0%	0%

Spending Rate	Private Asset Allocation-All PE-20Y					
	0%	10%	20%	30%	40%	50%
2%	0%	0%	0%	0%	0%	0%
3%	0%	0%	0%	0%	1%	2%
4%	2%	2%	3%	4%	6%	10%
5%	12%	11%	13%	15%	18%	22%
6%	31%	31%	31%	33%	36%	39%

Spending Rate	Private Asset Allocation-50PE/ 50 PD-20Y					
	0%	10%	20%	30%	40%	50%
2%	0%	0%	0%	0%	0%	0%
3%	0%	0%	0%	0%	0%	0%
4%	2%	2%	2%	2%	2%	3%
5%	12%	11%	10%	10%	10%	11%
6%	31%	30%	29%	28%	28%	29%

For illustrative purposes only. Data do not represent past performance and are not a promise of actual returns or a range of future results.

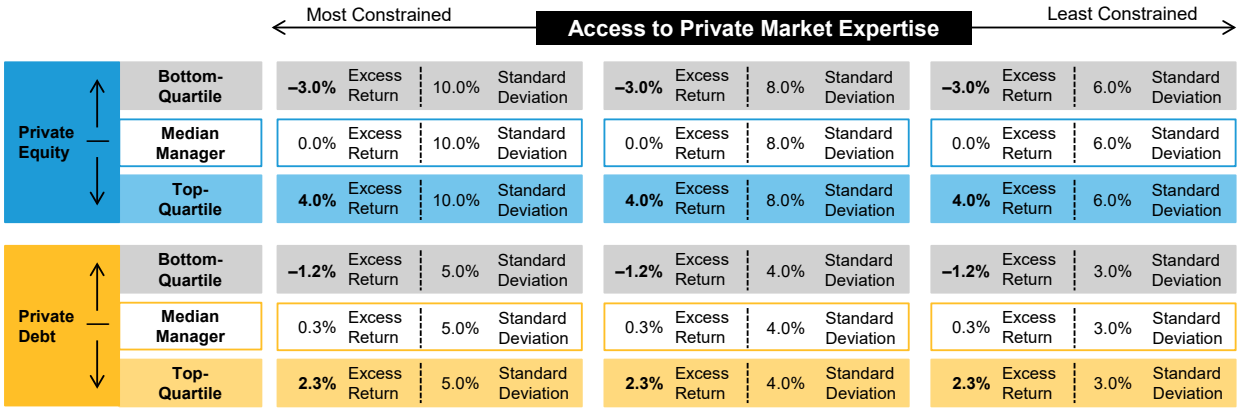
Liquidity risk figures shown for applying varying magnitude of private asset exposure to the moderate allocation portfolio.

As of December 31, 2025

Source: AB

As we noted earlier in the report, a key reason for allocation to private assets is the capture of alpha from top-quintile funds. As shown in *Display 15*, private equity in particular offers a very significant benefit on the order of a 4% excess return when investing with top-quartile managers. For private credit, there is also a notable return uplift on the order of 2.3%. The importance of access to alpha as opposed to only a beta allocation to the asset class is shown in *Display 15*, where the level of constraint refers to the size of the pool of available managers that the investor can access. "Most constrained" refers to an investor who only has the ability to invest in a small number of managers; hence, the standard deviation of their returns is greater.

DISPLAY 15: STEP 4: OVERLAY ALPHA EXPECTATIONS



For illustrative purposes only. Data do not represent past performance and are not a promise of actual returns or a range of future results.

Alpha expectations are derived from various published research papers. PitchBook compared private equity (PE) and private debt (PD) performance against leveraged public benchmarks, finding minimal excess returns for PE and 0.3% for PD. Goldman Sachs reported that return dispersion for PE is about twice that of PD. To simulate manager-selection skill, we can assume varying levels of alpha. According to Pitchbook and Cambridge Associates, the historical difference between top-quartile and median PE funds averages 6%–8%. For a conservative estimate, we assume alpha of 4% for PE and 2% for PD, reflecting the lower dispersion.

As of November 30, 2025.

Source: Cambridge Associates, Goldman Sachs, PitchBook and AB

To bring it all together, we run a very large number of simulations that incorporate the return and risk assumptions, liquidity constraints and alpha expectations outlined earlier to find the most attractive allocation. *Display 16* shows the resulting model portfolios with optimized private-asset allocations. Across all risk profiles, the key change is a marked reduction in public fixed-income allocation in favor of a higher allocation to private credit. In Conservative and Moderate portfolios, the exposure in private assets is balanced between private equity and private debt, while in the Aggressive portfolio, private equity is more dominant. In the public equities bucket, US equities remains a key allocation across all risk profiles.

DISPLAY 16: STEP 5: THE "OPTIMAL" PRIVATE MARKETS ALLOCATION

	Conservative	Moderate	Aggressive
US Equities	10%	29%	34%
EAFE Equities	4%	11%	13%
EM Equities	2%	5%	5%
Global Investment-Grade Debt	32%	15%	7%
Global Sovereign Debt	32%	15%	7%
Private Equity	8.0%	13.0%	22.0%
Private Debt	12.0%	12.0%	13.0%

Past performance does not guarantee future results.

EAFE: Europe, Australasia and the Far East; EM: emerging-market; IG: investment grade. "Optimal" allocations shown for a 3%–5% spending rate, medium alpha pool access and ability to select top-quartile managers.

As of December 31, 2025.

Source: AB

Finally, *Display 17* shows that thoughtfully adding private market exposures significantly improves risk and return outcomes. From Conservative to Aggressive allocations, hybrid portfolios with private assets show an increased return and Sharpe ratio compared to public-only portfolios with similar levels of tail risk and overall beta to equities. In addition, in all cases, the hybrid portfolios have a more favorable income profile compared with public-only allocations.

DISPLAY 17: EXPECTED RISK AND RETURN CHARACTERISTICS OF PORTFOLIOS

Conservative		
20Y CME	Public	Hybrid
Return	4.7%	5.7%
Risk	7.1%	7.7%
Sharpe	0.66	0.74
Tail Risk	-10.3%	-11.8%
Beta to EQ	0.31	0.37
Income	3.9%	4.5%

Moderate		
20Y CME	Public	Hybrid
Return	5.7%	6.8%
Risk	11.1%	11.6%
Sharpe	0.52	0.59
Tail Risk	-18.7%	-19.2%
Beta to EQ	0.66	0.68
Income	3.0%	3.7%

Aggressive		
20Y CME	Public	Hybrid
Return	6.1%	7.5%
Risk	13.7%	14.3%
Sharpe	0.45	0.53
Tail Risk	-24.4%	-24.3%
Beta to EQ	0.83	0.83
Income	2.5%	3.2%

Past performance does not guarantee future results.

CVaR: conditional value-at-risk. Forward-looking forecasts are formed for a 20-year horizon and represent the median return. Returns are shown in US-dollar terms and fully hedged. Private market return assumptions are as outlined in step one on page 19 of this presentation. Public market return assumptions are those of the AB Capital Markets Engine.

As of June 30, 2025.

Source: AB

Nashville
501 Commerce Street
Nashville, TN 37203
United States
(212) 969 1000

New York
66 Hudson Boulevard East
New York, NY 10001
United States
(212) 969 1000

London
60 London Wall
London EC2M 5SJ
United Kingdom
+44 20 7470 0100

Singapore
One Raffles Quay
#27-11 South Tower
Singapore 048583
+65 6230 4600

Tokyo
Hibiya Parkfront 14F
2-1-6 Uchisaiwaicho,
Chiyoda-ku
Tokyo, 100-0011, Japan
+81 3 5962 9000

Toronto
200 Bay Street, North Tower
Suite 1203
Toronto, Ontario M5J 2J2,
Canada
(647) 375 2803

Sydney
Level 32, Aurora Place
88 Phillip Street
Sydney NSW 2000
Australia
+61 02 9255 1200

Hong Kong
39th Floor, One Island East,
Taikoo Place
18 Westlands Road
Quarry Bay, Hong Kong
+852 2918 7888

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