

# The role of Alternative Investments in today’s portfolios

Why look beyond traditional investing?

For decades, investors have relied on the 60/40 portfolio—60% stocks and 40% bonds. But markets have changed, and so have the opportunities. Alternatives—such as private equity, private credit, private real assets, and liquid alternatives—can offer diversification, return potential, and risk management.

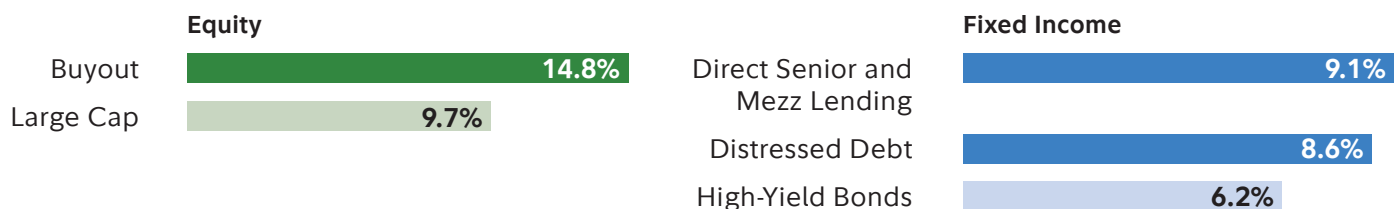
**Adding Alternatives to your portfolio may:**

- Help manage risk during market downturns
- Offer access to investments beyond traditional stocks and bonds
- Provide opportunities for higher returns over time

## Private vs. public: Fidelity research highlights Alternatives’ performance edge

Fidelity research indicated that private asset investment categories outperformed similar public market asset categories over the period studied. Representative examples shown: buyout (private) versus large cap equity (public); direct senior and mezzanine lending (private), and distressed debt (private) versus high-yield bonds (public).

### Private market asset class returns compared with similar public market asset class returns



Past performance is no guarantee of future results. Traditional asset categories: U.S. large cap equity—Russell 1000 Index; high-yield bonds—ICE BofA US High Yield Index; Alternative categories: private equity—buyout reflects annual return data from MSCI Private Assets; private credit—direct senior+mezz lending and distressed debt reflect annual return data from MSCI Private Assets. MSCI Private Assets data used in this research reflects returns of U.S. private capital funds and funds of funds. Data derived from “Alternative investment and their roles in multi-asset class portfolios.” See endnotes for index/asset category details. Sources: Bloomberg Finance LP, Morningstar, MSCI Private Assets, Fidelity Investments, as of Dec. 31, 2023.



## Potential for improved risk-adjusted portfolio returns

Fidelity’s analysis has shown that the use of Alternatives can improve portfolio returns on a risk-adjusted basis over full market cycles. Using historical data, we compared portfolios with a range of Alternative exposures (both private market and liquid alts) with that of a traditional 60/40 portfolio.

The addition of Alternatives may offer return enhancement, reduced risk, or both, shifting portfolios’ profile up and to the left on the chart below.

### Risk and return for various portfolios using historical data



Source: Traditional asset categories: U.S. Equity—Dow Jones US Total Stock Market Index; International Equity—ACWI ex USA Index; Fixed Income—Bonds, Bloomberg US Aggregate Bond Index, Cash, ICE BofA US 3M Trsy Bill TR USD; Alternative categories: liquid alternatives—HFRI Macro Total Index and HFRI EH Equity Market Neutral Index; managed futures: SG CTA Index (note, there may be managed futures strategies in both the HFR and SG indexes); private equity—buyout reflects annual return data from MSCI Private Assets; private credit—direct senior+mezz lending reflects annual return data from MSCI Private Assets; real assets—private real estate represented by the NFI-ODCE Index. MSCI Private Assets data used in this research reflects returns of U.S. private capital funds and funds of funds. See endnotes for index/asset category details.

Sources: Bloomberg Finance LP, HFR Inc., www.HFR.com, © 2024 HFR, Inc. All rights reserved, Morningstar, MSCI Private Assets, Dow Jones, Societe Generale, NCREIF, Fidelity Investments, as of Dec. 31, 2023.

## How Alternatives may fit into a portfolio

Not all Alternatives are the same. Your allocation should match your financial goals, risk tolerance, and liquidity needs.

Your Liquidity Needs	Possible Allocation to Alternatives
<b>High</b> (Need easy access to cash)	Mostly liquid alternatives (5%–10%)
<b>Medium</b> (Some access needed)	A mix of liquid and private market Alternatives (10%–15%)
<b>Low</b> (Long-term investor)	Greater allocation to private market Alternatives (10%–30%)

## Common questions about Alternatives

### Q: Are Alternatives riskier than stocks and bonds?

A: Some alternatives carry different risks, such as lower liquidity or longer holding periods. However, they also offer unique benefits like diversification and downside protection. The key is balancing Alternatives with your overall investment strategy.

### Q: Can I still access my money if I invest in Alternatives?

A: It depends on the type of Alternatives. Liquid alternatives allow for more flexibility, while private investments often require longer commitments. Your portfolio should match your liquidity needs.

### Q: How much of my portfolio should include Alternatives?

A: It varies by investor. If you need quick access to cash, a small percentage in liquid alternatives may be best. If you can take a longer-term view, adding private market Alternatives may improve your portfolio’s risk-adjusted returns.



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Private Placements are illiquid investments and involve a high degree of risk. A fundamental premise of venture capital investing is the acceptance of illiquidity and a higher degree of risk than is generally inherent in public stock or bond investments, with the possibility of higher returns.

Alternative investment strategies may not be suitable for all investors and are not intended to be a complete investment program. Alternatives may be relatively illiquid; it may be difficult to determine the current market value of the asset; and there may be limited historical risk and return data. Costs of purchase and sale may be relatively high. A high degree of investment analysis may be required before investing. Participation in a Private Placement requires a long-term commitment, with no certainty of return.

Stock markets are volatile and can fluctuate significantly in response to company, industry, political, regulatory, market, or economic developments. Foreign markets can be more volatile than U.S. markets due to increased risks of adverse issuer, political, market, or economic developments, all of which are magnified in emerging markets.

These risks are particularly significant for investments that focus on a single country or region.

Investing involves risk, including risk of loss.

**Past performance and dividend rates are historical and do not guarantee future results.**

**Diversification and asset allocation do not ensure a profit or guarantee against loss.**

**All indices are unmanaged. You cannot invest directly in an index.**

The **Russell 1000 Index** is a market capitalization-weighted index designed to measure the performance of the large cap segment of the U.S. equity market. **ICE BofA U.S. High Yield Index** is a market capitalization weighted index of U.S. dollar-denominated, below investment-grade corporate debt publicly issued in the **U.S. market**. **NFI-ODCE Index (NCREIF)**, short for NCREIF Fund Index Open End Diversified Core Equity, is an index of investment returns reporting on both a historical and current basis the results of 38 open end commingled private real estate funds pursuing a core investment strategy, some of which have performance histories dating back to the 1970s. **HFRI Macro Total Index**: Investment managers who trade a broad range of strategies in which the investment process is predicated on movements in underlying economic variables and the impact these have on equity, fixed income, hard currency, and commodity markets. Managers employ a variety of techniques, both discretionary and systematic analysis, combinations of top-down and bottom-up theses, quantitative and fundamental approaches, and long and short-term holding periods. Although some strategies employ relative value techniques, macro strategies are distinct from relative value strategies in that the primary investment thesis is predicated on predicted or future movements in the underlying instruments, rather than realization of a valuation discrepancy between securities. In a similar way, while both macro and equity hedge managers may hold equity securities, the overriding investment thesis is predicated on the impact movements in underlying macroeconomic variables may have on security prices, as opposed to equity hedge, in which the fundamental characteristics of the company are the most significant and integral to investment thesis. In order to be considered for inclusion in the HFRI Monthly Indices, a hedge fund manager must submit a complete set of information to the HFR Database. Additionally, all HFRI constituents are required to report in U.S. dollars monthly, net of all fees, performance, and assets under management. Constituent funds must have either \$50 million assets under management or at least \$10 million USD assets under management on the last reported month prior to the index rebalance and have been actively trading for at least 12 months. **HFRI EH Equity Market Neutral Index**: Equity market-neutral strategies employ sophisticated quantitative techniques of analyzing price data to ascertain information about future price movement and relationships between select securities for purchase and sale. These can include both factor-based and statistical arbitrage/trading strategies. Factor-based investment strategies include strategies in which the investment thesis is predicated on the systematic analysis of common relationships between securities. In many but not all cases, portfolios are constructed to be neutral to one or multiple variables, such as broader equity markets in dollar or beta terms, and leverage is frequently employed to enhance the return profile of the positions identified. Statistical arbitrage/trading strategies consist of strategies in which the investment thesis is predicated on exploiting pricing anomalies that may occur as a function of expected mean reversion inherent in security prices; high-frequency techniques may be employed and trading strategies may also be employed on the basis of technical analysis or opportunistically to exploit new information the investment manager believes has not been fully, completely, or accurately discounted into current security prices. Equity market-neutral strategies typically maintain characteristic net equity market exposure no greater than 10% long or short. **SG CTA Index** is designed to track the largest 20 (by AUM) CTAs and be representative of the managed futures space. Managers must be open to new investment and report returns on a daily basis. The **CTA Index** is equally weighted, and rebalanced and reconstituted annually.

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