



## Alternatives 2025 Outlook

January 2025

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## Introduction

Economic fundamentals matter. Whether investing in credit or equities, currencies or commodities, real estate or infrastructure, the macroeconomic context ultimately influences performance. Understanding how markets affect alternatives strategies is a central tenet of our investment philosophy, and for over a decade, Wilshire has developed annual investment themes based on macro trends. Although macro views can never take the place of rigorous bottom-up research, we believe they serve as a guide when allocating scarce resources to find and evaluate the most compelling investment strategies.

## Approach

Wilshire's alternatives research practice follows a thesis-driven investment approach that integrates a top-down market viewpoint into decisions, facilitating proactive investment theme development for targeted manager sourcing and research. We analyze market observations for each sector across the alternatives landscape, pinpointing the most valuable and inefficient markets within each area. This comprehensive approach spans globally, harnessing local team expertise and relationships to help identify trends, optimize returns and mitigate risks. Our belief underscores the significance of a top-down economic perspective in shaping portfolio construction and directing research efforts towards the most compelling market segments. While not substituting in-depth, bottom-up manager research, these perspectives serve as guides for ultimate investment decisions.

# Global Overview

The outlook for the year ahead is shaped by the complex interplay between economic policy, geopolitical developments, technological investment, and sustainability initiatives on a global scale.

The global economy has shown resilience in the aftermath of recent shocks, with growth expected to be stable in 2025. However, inflation remains a nuanced issue, and central banks face the challenge of balancing economic expansion against inflationary pressures as they continue to ease monetary policy. Geopolitical tensions and trade dynamics, including the potential for broader trade wars, are concerns for 2025.

## Interest Rates

With inflation moderating, central banks are progressively normalizing policy settings and intend to bring rates back to neutral. While rates are expected to decrease further in 2025, secular inflationary pressures emerging from deglobalization, aging populations, the wealth effect and energy transition may well suggest structurally higher rates going forward. The ripple effects of U.S. geopolitical actions, including fiscal policies and tariff applications, may also increase the probability of higher interest rates. In the year ahead we believe this rate trajectory will have profound implications for the marginal consumer, business and real assets.

## Geopolitics

Global geopolitics, shaped by trade tensions, U.S. policies, and broader economic shifts such as deglobalization, are critically influencing the economic landscape for 2025. Strained trade relationships, especially between the United States and China, and the potential imposition of broad tariffs are concerns with the potential for significant global economic implications. From tail risks in the energy markets to political changes and fiscal debates in countries like France, Germany and Japan that highlight internal challenges and international geo-economic shifts, much of the geopolitical discussion next year is expected to focus on risk.

## Artificial Intelligence

Artificial Intelligence (“AI”) technology has become a pervasive influence on global markets, highlighting its role in infrastructure growth, technological advancements, and contributions to economic development. AI’s use cases in business processes are obvious and plentiful, suggesting a broadening impact beyond the tech sector. The 2025 investment opportunity will feature not only AI-related hardware and software but also power and digital infrastructure, triggered by the surging resource requirements both upstream and downstream of the data center.

## Energy Transition & Sustainability

2025 should reflect the ongoing adaptation of global economic structures to incorporate energy transition and sustainability principles, address climate change challenges, and shift toward more sustainable business practices. Although regional disparities exist in energy transition and sustainability priorities, there is broad conviction in the necessity of investment that supports the energy transition, including renewable energy and technology that supports decarbonization.

In 2025 these megatrends will shape the alternatives investment landscape and will drive the return opportunity in the year ahead.

## 2025 Global Megatrends



Charts are for illustrative purposes only.

# North America

## Regional Context

We find the U.S. economy to be characterized by growth, disinflation, and monetary easing with policy uncertainty introducing risk to each of these. With this view we have distilled the 2025 Global Megatrends into regional context and local opportunity themes in the United States.

	Regional Context	Local Opportunities
Artificial Intelligence	Capital Expenditure	Digital Infrastructure
	Shift in Value Capture	Power
	Enhanced Productivity	Applications
Energy Transition & Sustainability	Environmental Initiatives	Green Infrastructure
	Diversity and Inclusion	Clean Energy
	Income and Financial Equality	Industrial Decarbonization
Geopolitics	Deglobalization and Tariffs	Industrial Onshoring
	Deregulation	Security and Defense
	Immigration Policy	Energy Security
Interest Rates	Short-Term Moderation	Real Estate
	Higher Terminal Value	Infrastructure
	M&A Activity	Private Credit

U.S. recession fears have diminished, inflation continues to trend down, labor markets are showing some signs of softening but remain healthy, and pro-growth policies from the Trump administration all support the case for GDP growth in the year ahead. This is bolstered by fiscal measures such as tax cuts and deregulation, along with industrial policies focused on reindustrialization and reshoring that should continue to boost domestic capital spending. Additionally, the continuation of policy through acts like the Inflation Reduction Act indicates sustained support for renewables and infrastructure, reinforcing those growth trajectories. The Federal Reserve's (Fed) focus on maintaining price stability is challenged by the need to balance economic growth with inflation control. Although inflation risk has eased, it remains a complex issue with the potential for fiscal expansions, immigration policy, and tariffs that may exert upward pressure. While U.S. interest rates are expected to continue their decline toward neutral, they will likely settle well above post-Global Financial Crisis (GFC) levels.

Overall, the tone for the United States in 2025 is bullish. Risk assets are expected to perform well, driven by GDP growth and business-friendly policy shifts. Expected

deregulation and fiscal policies that lower costs may broaden benefits across sectors and strategy types. Post-election, policy decisions have emerged as the driving force, though, uncertainty in the timing and magnitude of these decisions broadens the distribution of future outcomes. At the same time, we are witnessing some signs of underlying slowing in economic activity, as Wilshire's Economic Cycle Indicator shows a material increase in the probability of an economic contraction. This implies some risk of a downside surprise in U.S. economic activity despite the current bullish sentiment.

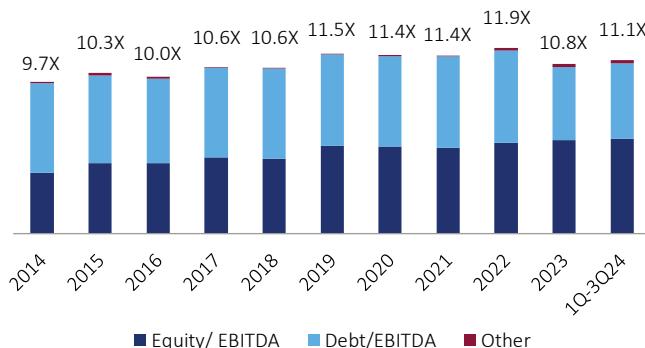
Recognizing that much of the alternatives market is inherently opportunistic, investors can position their portfolios toward those asset classes that are either uncorrelated or benefit directly from these forces, with managers with the skill to navigate these challenges and capitalize on the complexity they introduce.

## Private Equity

Strategy	Outlook	Key
Buyout	●	Highly Favorable
Growth Equity	○	Favorable
Venture Capital	○	Neutral

### Buyout

#### North American Buyout Purchase Price Multiples



Source: PitchBook LCD, Q3 2024.

The U.S. buyout market is expected to benefit from lower interest rates - improving leverage conditions and spurring transaction activity, although the full impact may be delayed due to valuation gaps between sellers and buyers. In this market we continue to favor smaller and sector-focused managers that emphasize value creation through

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operational enhancements and strategic transformations. Managers with the skill to capitalize on complexity, such as carveouts or special situations, are also well poised. Evolving exit strategies are being employed, such as secondary markets and continuation vehicles, to manage longer holding periods and provide interim liquidity while enabling longer ownership of high-potential assets. This highlights a focus on navigating macroeconomic influences and adapting to current market conditions.

## Growth Equity

### U.S. Growth Equity Investment Activity and Valuations



Source: PitchBook. Annualized deal activity through 3Q 2024.

Discipline has returned to the growth equity market, with a renewed emphasis on profitability instead of “growth at any cost.” Underwriting standards remain high in the hope that the economic tailwind and lower interest rates will reverse the recent trend in deal activity. Valuations, still down significantly from their peak, are expected to remain under pressure. Investors are focusing on sectors with potential for technological advancements, such as AI and renewable energy, and integrating technology into traditional business models to drive growth. Despite these challenges, growth managers should benefit from larger, more mature companies staying private for longer, less competition, and revaluation.

## Venture Capital

### U.S. Venture Capital Investment Activity and Valuations

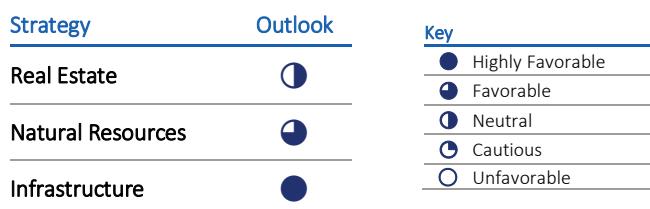


Source: PitchBook. Annualized deal activity through Q3 2024.

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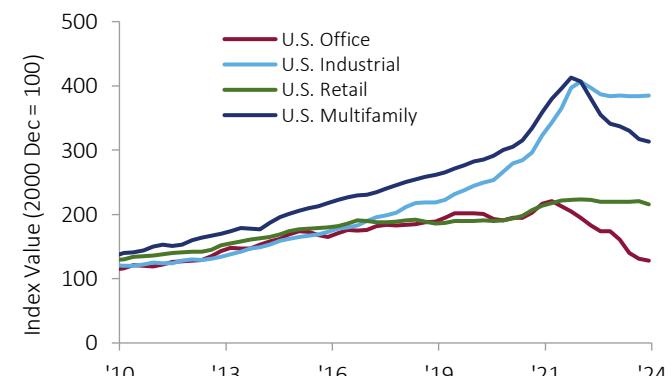
The U.S. venture capital market is adjusting to changes in capital supply and demand, leading to moderated valuations and a focus on high-quality companies with strong fundamentals. There is continued emphasis on sectors with strong structural growth, such as technology, health care, and business services, with AI integration driving investment strategies. Additionally, the market is adapting to macroeconomic and regulatory changes, with interest rate adjustments and potential deregulation emerging as important forces that will shape the opportunity ahead.

## Private Real Assets



## Real Estate

### U.S. Property Type Pricing Indices (2000 Dec = 100)

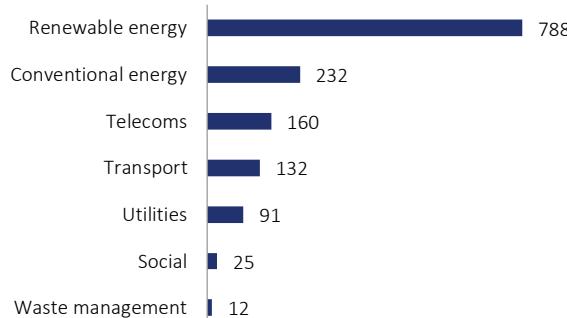


Source: CoStar Commercial Repeat-Sale Indices (CCRSI), CoStar Group. Value weighted data. Data through July 2024.

The U.S. real estate market is adapting to the prospect of structurally elevated interest rates, which impact rent collection and necessitate more operationally intensive value creation practices. Property values in sectors like industrial and retail have stabilized due to easing monetary policies and improved financing conditions. The market is bifurcated, with office real estate facing significant challenges from remote work trends, while logistics continues to benefit from strong demand. Investors are focusing on long-term trends such as demographic shifts, supply chain reconfiguration, and housing affordability, requiring strategic investments and operational adjustments to align with these prolonged secular trends.

## Infrastructure

### U.S. Infrastructure Deals by Sector

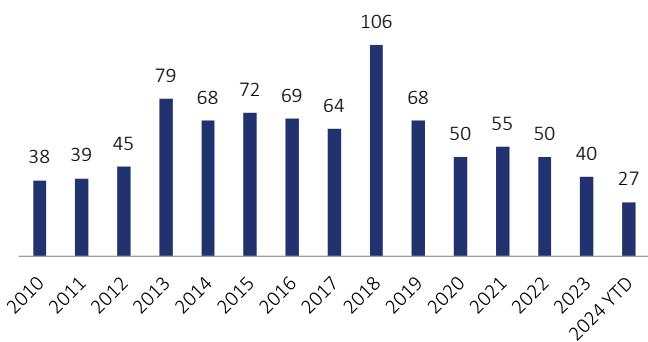


Source: Preqin as of Q3 2024.

The U.S. infrastructure market is being shaped by artificial intelligence and the energy transition, with investments focused on decarbonization, energy efficiency, and renewable energy projects, alongside advancements in electrification and digitization. Absent significant repeal, the \$1 trillion Infrastructure Investment and Jobs Act should continue to provide substantial government support and increasing public prioritization across the infrastructure spectrum from clean energy to broadband. Geopolitical volatility, particularly regarding energy security and cost affordability, influences regulatory frameworks and necessitates a multifaceted approach to infrastructure initiatives. Additionally, technological advancements in AI and cloud computing are driving growth in data centers and connectivity projects, highlighting the dual roles of energy transition and technology in steering infrastructure investments amidst geopolitical challenges and the pursuit of sustainable energy solutions.

## Natural Resources

### North America Natural Resources Fundraising (#Funds)

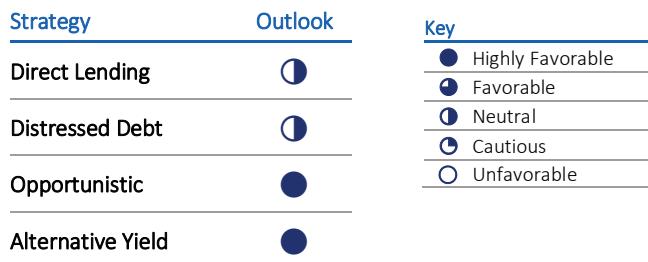


Source: Preqin as of December 2024.

The U.S. natural resource opportunity is driven by the interplay between energy transition, regulatory dynamics, and technological progress. The oil and gas market is undergoing significant changes, focusing on the transition

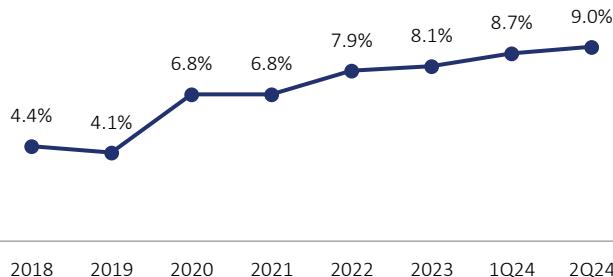
to renewable energy and decarbonization through investments in green energy projects, energy efficiency, and carbon capture technologies. Geopolitical factors and regulatory changes are also influencing the market, with a strong emphasis on energy security and clean energy incentives, though balancing these with economic viability remains challenging. Other natural resource areas such as mining and agriculture tend to be in an apparently constant state of flux as the result of the geopolitical, technological, macroeconomic, capital market, and energy transition and sustainability forces that shape these markets. Emerging private credit markets in energy (traditional and renewable), agriculture and mining offer compelling risk-adjusted returns that can dampen commodity price and other external risk exposures on the downside while maintaining upside optionality.

## Private Credit



### Direct Lending

#### PIK Income Percentage (Fitch-Rated BDCs)



Source: Fitch Ratings, September 2024.

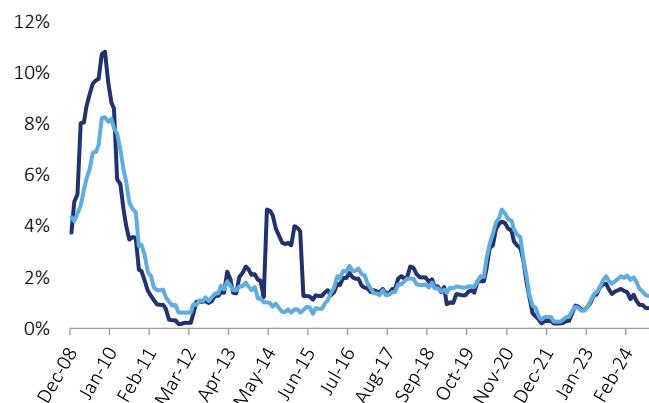
While the direct lending market has suffered from intense competition in recent years, secular bank retrenchment in the leveraged loan market together with regional bank challenges suggest robust opportunity ahead for direct lending deployment. The year ahead will be characterized by higher base rates in the United States with anticipated interest rate cuts expected to benefit the mid-market segment by enabling more leverage for businesses and stimulating buyout transactions. A disciplined approach to underwriting focusing on realistic forecasting, meaningful covenants and rightsized debt packages is crucial to align

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with the evolving investment landscape and ensure compelling risk-adjusted return going forward.

### Distressed Debt

#### Levered Loan LTM Default Rate

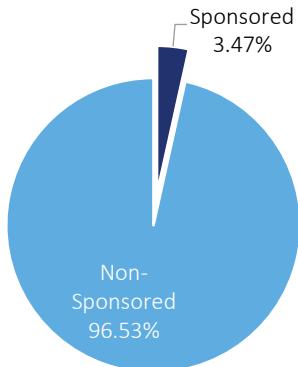


Source: PitchBook LCD, Q3 2024.

Distressed debt is an inherently cyclical asset class with outsized reliance on external factors such as market dislocation and default rates vis-à-vis other private credit strategies. The next distressed debt cycle has the potential to be attractive as the build-up of high-risk, low-quality debt in the system over the past decade has been pronounced. While a catalyst for the next cycle is impossible to predict, the distressed debt market is significantly impacted by interest rate fluctuations. As a result, as the Fed adjusts rates, distressed debt strategies are being recalibrated to manage these changes and capitalize on market dislocations. While published default rates remain benign, signs of credit stress exist in various forms from amendment, extension and other restructuring activity.

### Opportunistic

#### U.S. Percentage of Non-Sponsored Companies

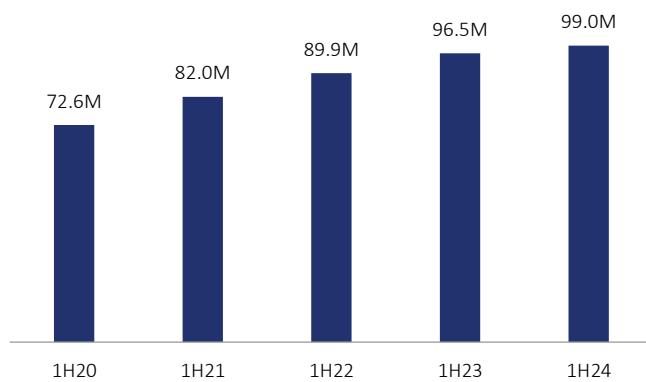


Source: S&P Global, as of October 2023.

Opportunistic credit strategies, often focused on non-sponsored businesses, are well-positioned in this evolving interest rate environment. Managers with the skill to capitalize on complexity and embrace flexibility can separate themselves from the herd and create upside optionality during periods of dislocation. The result is the potential for above-market return with below-market risk. The combination of sub-market inefficiency and manager competitive advantage pays dividends in frothy and stressed markets alike suggesting an attractive “all weather” attribute to opportunistic strategies. Sector specialization and advantaged deal sourcing are key strategic components and, when paired with highly structured and well-collateralized investments, may provide opportunity to generate outsized risk-adjusted returns particularly during volatile periods.

### Alternative Yield

#### U.S. Paid Music Subscriptions



Source: RIAA. Periods Jan. 1 – June 30, 2020 – 2024.

Alternative yield strategies, born from the concept of uncorrelated return, delivered as expected through the stress test of the COVID crisis and may be poised to generate attractive risk-adjusted yield in 2025. Indeed, investors with appetite for differentiated strategies operating in less efficient markets, uncorrelated contractual cash flows, and outsized margins of safety are well positioned. Intangible assets such as music royalties, specialized asset-backed finance, risk transfer, and sector-focused direct lending are examples of such market segments that may offer compelling risk-adjusted return and less correlated sources of income. As investors lean on diversification to help guide portfolios in 2025, these strategies have proven utility not only as sources of risk-adjusted return but also as tools for portfolio risk management.

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# Europe

## Regional Context

In 2024, the European economy exhibited slow GDP growth with reduced inflation and interest rates, while maintaining strong labor markets, with expectations for moderate GDP growth and further inflation decline in the coming years. With this view we have distilled the 2025 Global Megatrends into regional context and local opportunity themes in Europe.

2025	Regional Context	Local Opportunities
Artificial Intelligence	Digital Disruption	Venture Technology
	Local Growth Hubs	Digital Infrastructure
	Enhanced Productivity	Applications
Energy Transition & Sustainability	Climate Change	Decarbonization and CleanTech
	Energy Transition	AgriTech and PropTech
	Circular Economy	ESG Value Creation
Geopolitics	International Conflicts	Defense and Security
	Populism/Policy Volatility	Production Onshoring
	Migration and Demographics	Health Care and Life Sciences
Interest Rates	Tight Labor Markets	Education and Adult Learning
	Consumption Growth	Private Credit
	Subdued Industrial Manufacturing	HR- & CAPEX Light Business Models

Geopolitical and macro-economic factors that could impact the 2025 market outlook include:

- Prolonged war in Ukraine and conflict in the Middle East may continue to impact energy price volatility, supply chain disruption and migration highlighting investment in defense and security.
- Climate change and extreme weather events causing increased direct market losses, as seen by the severe floods in Central and Southern Europe during 2024.
- A persistent tight labor market in Europe, driven by multiple factors including labor market mismatch, increased labor demand and structural trends such as declining average hours worked and the decline in working age population.
- Household disposable income continues to expand above its pre-pandemic long-term average. Easing inflation and gradual lowering of the household savings rate may boost consumption growth in 2025 and 2026.

Mario Draghi's report on the future of European competitiveness is expected to influence the European Commission's economic and stimulus plans for the medium

term. Its three focus areas are innovation (including learning and education), decarbonization, and safety and security. As a result, and also with the €650 billion Recovery and Resilience Facility made available by the EU, the government sector is projected to boost investment in infrastructure as well as with corporates, particularly with respect to the energy transition and the necessity to become independent from Russian gas supply.

Against this macroeconomic context, we continue to favor more defensive business models underpinned by demand, as well as recurring revenues. We view technology as one of the strong secular opportunities. Technological disruption is taking place in an increasing number of sectors, particularly through the recent worldwide introduction and rapid early adoption of generative AI. We believe transformational trends such as universal connectivity are irreversible and that digital transformation continues to present vast growth potential across private markets. Rising technology penetration leads to an increase in the spread of cyberattacks, spurring innovation, e.g. the emergence of cybersecurity-focused venture capital firms.

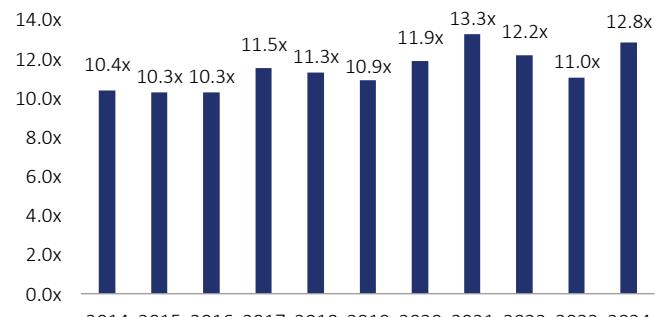
Continued tight labor markets place a higher premium on investing in HR-light business models while the subdued industrial manufacturing activity encourages investing in business models with low capital expenditures – both of which again strengthen the case for technology.

Lastly, the protracted war in Ukraine highlights that Europe remains underinvested in defense and security innovation. Marked change in political debate and public opinion will continue to open up different types of opportunities, particularly in technology.

## Private Equity

### Buyout

#### European Buyout Purchase Price Multiple



Source: Pitchbook. 2024 data reflects 1/1/24-9/30/24.

Charts are for illustrative purposes only.

European buyout activity rebounded in 2024 after a low 2023, although still not at the historically high levels of 2021 and 2022. Managers are capitalizing on decreasing interest rates and narrowing spreads to pursue deals, with quality assets fetching higher market multiples. Expected rate cuts in 2025, once inflation eases, could further stimulate private equity deal activity. Funds will be focused on exit management, as exit activity remained scarce in 2024. However, as economic growth is expected to remain muted, investors in Europe have focused on operational strengthening of assets and consolidation through smaller mergers and acquisitions (M&A). In 2025, the focus should remain on businesses with differentiated products in defensive sectors. Companies active in essential industries, (e.g. pharma), are better positioned to face market volatility. However, we continue to have strong conviction on the European buyout market given (i) its diversity (ii) its vast and relatively less efficient lower mid-market, and (iii) potential low prices as a result of desperate sellers in the wake of failed auctions in 2024.

The European special situations sector should be well positioned to capitalize on the expected increase in stressed assets in the wake of the frothy trading and failed auctions in 2024. Continuous macro-economic uncertainty in some of Europe's largest economies such as Germany should provide deal flow for special situations funds. Finally, strategic buyers facing declining growth could look to divest non-core assets to improve their financials, providing deal flow for carve-out focused managers.

### Regional Buyout Outlook

Sector	Investment Opportunity	Key
UK/Ireland	●	Highly Favorable
Nordics	●	Favorable
Benelux	●	Neutral
DACH	●	Cautious
France	●	Unfavorable
Spain/Portugal	●	
Italy	●	
CEE & Turkey	●	

### Growth Equity

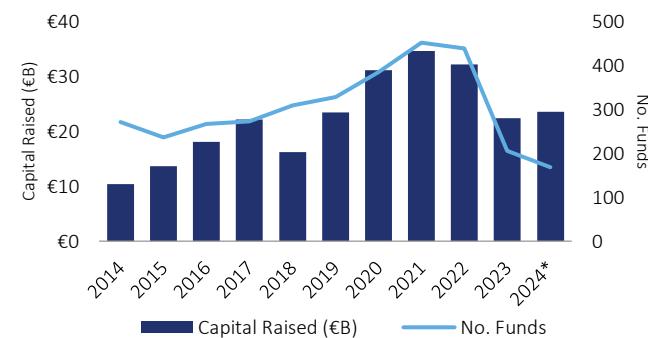
Declining interest rates have boosted capital flows into the European private equity market, increasing activity, particularly in large-scale transactions within sectors like

information technology and sustainable energy that align well with long-term growth and global sustainability goals. However, this increase in PE activity has come through an uptick in buyout deals at the expense of growth/expansion deals. PE expansion deal value has decreased over 15% in 2024, representing less than 8% of total PE deal activity.

Despite broader economic challenges like slower growth and inflation, middle-market fundraising remains strong, with European funds raising a substantial €110 billion in the first three quarters of 2024. However, the market is increasingly moving away from a 'growth at all costs' strategy, evidenced by decreased market share of growth and expansion funds, which captured less than 10% of European PE capital by late 2024, the lowest since 2017. After the frothy market in 2021, investors have been prioritizing profitability and balance sheet management. Moving into 2025, as exits remain slow and limited partners seek liquidity, growth equity activity is expected to remain subdued, with investors prioritizing profitability over unchecked growth.

### Venture Capital

#### Europe VC Fundraising Activity



Source: Q3 2024 European Venture Report Pitchbook.  
2024 run-rate figures (Q3 2024).

In 2024, the European venture capital market reflected cautious optimism amidst modest macroeconomic improvements, as also indicated by capital raised having surpassed 2023 levels by the end of the third quarter. Deal value, median deal size, and valuations showed improvement versus 2023, although overall deal activity slightly decreased as the market experienced a "flight to quality." Venture debt became an increasingly popular option, indicating a preference for this cost-effective capital source among high-growth companies. Despite longer closing times and a persistently muted exit market, VC fundraising remained resilient while capital continued to favor experienced managers. Seed and early-stage valuations continued to rise, whereas late-stage valuations appeared to have stabilized following the correction in

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2022. These dynamics suggest that the market may have moved past the worst of the downturn.

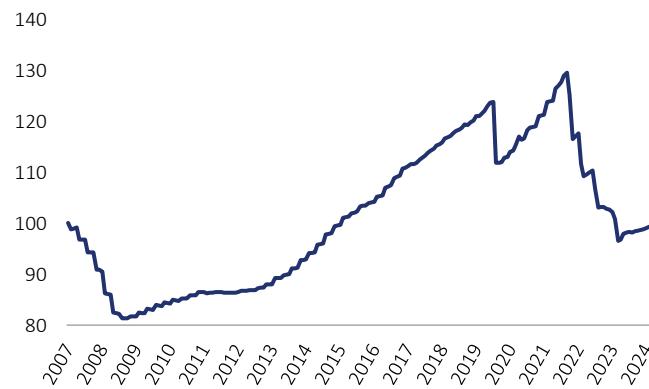
Looking ahead to 2025, the European VC outlook is influenced by several key factors: potential for increased deal activity due to an increase in “dry powder” (or available capital), recovery signs among late-stage valuations, and possible further interest rate cuts that could support valuations and stimulate strategic M&A. However, with a muted exit market since 2021, liquidity remains a significant concern for VC investors.

## Private Real Assets

Strategy	Outlook	Key
Real Estate	●	Highly Favorable
Natural Resources	●	Favorable
Infrastructure	●	Neutral

### Real Estate

#### Pan-European Commercial Property Price Index



Source: Green Street, as of October 1, 2024. Core Sector Average is equally weighted between the Industrial, Office, Residential, and Retail sectors. Indexed to 100 in September 2007.

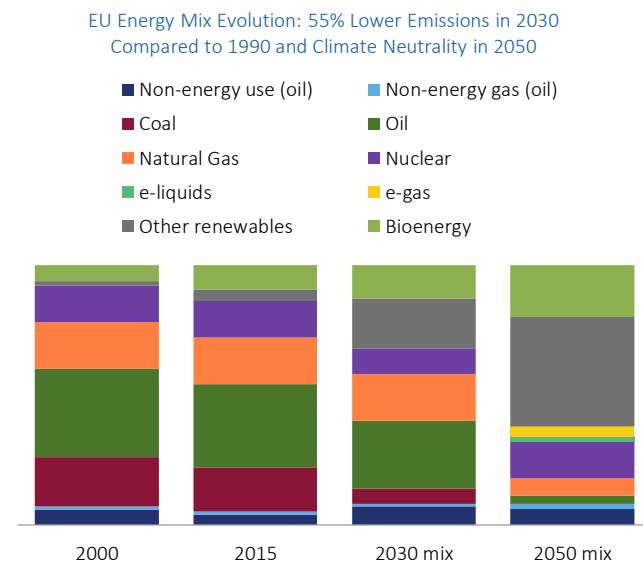
The outlook for the European real estate market is showing signs of improvement since troughing in the fourth quarter of 2023. Nervousness around refinancing has abated significantly, and while there are still pockets of distress, the market is stabilizing, supported by steady valuations. Higher income returns are contributing to improved sentiment, further bolstered by cooling inflation, ECB's interest rate cuts and stronger operational performance. Sector-wise, office assets have gained attention but still lag pre-pandemic levels due to flexible working trends, while prime assets continue to see rental growth pointing to a shift in demand to core future-proof assets in central locations. Logistics have generally seen an increase in vacancy rates, however best-in-class assets in key

distribution markets with significant consumer density remain scarce. This combined with a slowed pipeline of new development point to a positive rental growth outlook. The retail sector has been through a deep reset but is showing signs of traction in certain formats such as brand/flagship stores in prime shopping cities, as improved consumer fundamentals increase foot traffic to pre-pandemic levels. Similarly, the residential sector is poised for a strong recovery with attractive occupational fundamentals, healthy income growth given ongoing supply constraints from increased building and financing costs, along with pockets of regulatory uncertainty.

Despite its relatively small market size, there is growing interest from investors seeking to commit significant capital to the European data center market. This has been driven by significant demand pushing up rental prices for existing assets due to power shortages and strict regulations, particularly in power-constrained regions. Large corporations require more capacity, propelled by advancements in AI and high-performance computing which will require rapid innovations in data center design and technology to manage rising power density needs.

### Natural Resources

#### Energy Mix Evolution



Source: World Economic Forum, European Council on Foreign Relations, 2021.

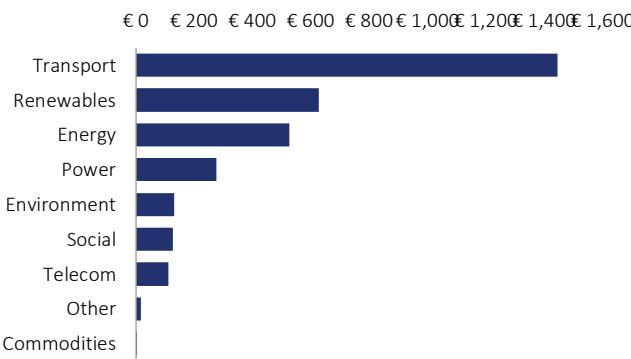
In recent years the world has seen increased integration of the global energy industry. The combination of continuing growth in energy demand and the drive to solve climate issues is breaking down segment barriers. Transition to a low-carbon economy appears inevitable and has been accelerated by Europe's recent energy security concerns. The EU has committed to net-zero carbon emissions by

Charts are for illustrative purposes only.

2050 and has pledged to reduce emissions more aggressively up front, by 55% from 1990 levels by 2030. Against this context, we consider the trend toward decarbonization and energy transition to increasingly offer compelling investment opportunities in natural resources, supported by renewables having rapidly approached cost-competitiveness against turbulent and higher gas and carbon prices. Focused more on energy strategies, Europe has taken over as the preferred region for investors, with Asia Pacific emerging and the United States declining.

## Infrastructure

### Live Global Transactions by Sector (€ bn)



Source: Infracologic, December 2023.

Infrastructure has been a resilient asset class across the market cycle, benefiting from a strong and reliable income component derived from long-duration inflation-linked contracts. While this resilience is general across the asset class, there is divergence across subsectors. Recent trends within European infrastructure highlight several key themes guiding infrastructure investors: energy transition, decarbonization, supply chain resilience, public transportation, demographic change, and digitalization.

The transportation sector, in particular, is expected to see increased activity in 2025 as it accounts for the largest share of the global infrastructure deal pipeline. This sector has been significantly affected by the pandemic, leading to increased risk perception despite trade volumes and passenger numbers approaching or surpassing pre-2019 levels.

The emphasis on strengthening domestic industrial capacity and reorienting supply chains is anticipated to drive demand for transport assets and generate greenfield opportunities. Moreover, the infrastructure market has begun to mature, with expectations for a return to stronger fundraising and transaction activity in 2025. Energy transition and digitalization remain major areas for capital deployment, with transport assets also poised for increased activity. The midmarket segment presents a compelling opportunity, offering higher returns compared to lower-

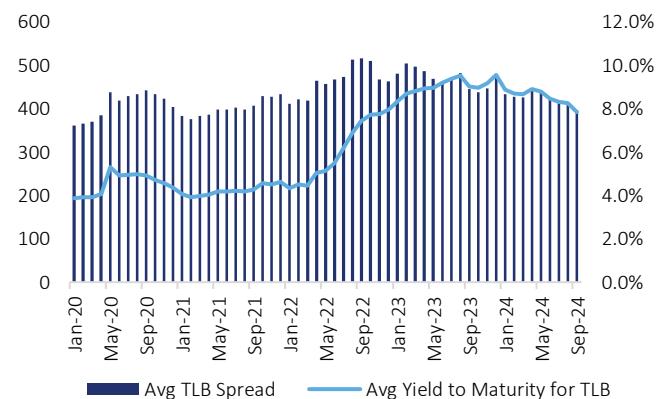
returning equity strategies as established players have moved up-market.

## Private Credit

Strategy	Outlook	Key
Direct Lending	Neutral	● Highly Favorable ●● Favorable ●○ Neutral ○ Cautious ○○ Unfavorable
Distressed Debt	Highly Favorable	● Highly Favorable ●● Favorable ●○ Neutral ○ Cautious ○○ Unfavorable
Opportunistic	Highly Favorable	● Highly Favorable ●● Favorable ●○ Neutral ○ Cautious ○○ Unfavorable
Alternative Yield	Neutral	● Highly Favorable ●● Favorable ●○ Neutral ○ Cautious ○○ Unfavorable

### Direct Lending

#### European TLB Primary Spread and YTM



Source: S&P LCD Q3 2024.

The European direct lending market is growing fast on the back of investors' appetites for a yielding asset class and low volatility in combination with European banks' retraction from middle-market lending during the GFC. Private equity-induced borrower demand has also contributed to the strong increase in the assets under management of this asset class. In 2024, the European direct lending market experienced increased activity versus 2023 with growth in transaction volumes, an increase in buyout and M&A activities, albeit still significantly below 2019 levels, and diverse financing strategies including private credit and structured investments like CLOs. This heightened activity is reflective of increased confidence and expanding opportunities within the space. Notably, there is increased integration of private credit into structured finance products such as CLOs.

Looking ahead, European loan pricing will continue to trend lower, reflected in the recent waves of repricing that are increasingly tilting the scale in favor of borrowers. The market has also seen a shift toward more complex and structured deals, such as PIK (Payment-In-Kind) financing, which is becoming more prevalent in fully leveraged

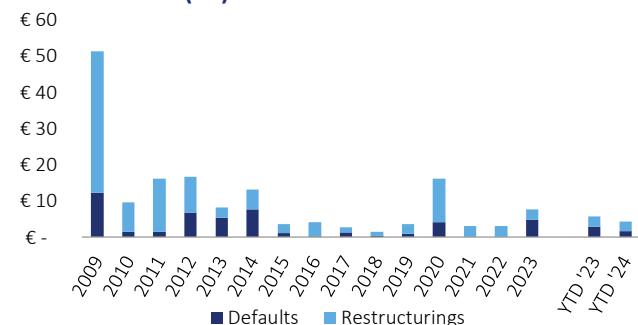
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structures. This trend indicates a maturing yet cautious market.

The European market is characterized by a high concentration of deal flow among large, top-tier managers with long-term experience through the cycles and a strong track record. We generally favor more niche lending opportunities, including a focus on mid-market companies that struggle to access traditional sources of funding. The specialized managers active in this space can charge a solution premium that differentiates their returns from plain vanilla direct lending managers.

### Distressed Debt

#### Volume of Defaults vs. Restructurings based on Sr. Par Issue (€B)



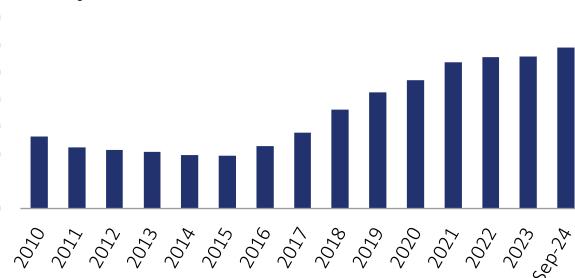
Source: S&P LCD Q3 2024. Volume.

While the tipping point for the next cycle is impossible to forecast, some structural characteristics continue to create distressed debt opportunities in Europe. The prolonged effects of zero/negative interest rates and Basel IV regulations continue to challenge the region's financial health. Post-COVID, improved banking capitalization throughout the eurozone has continued to create non-core, non-performing loan sell-offs favorable to distressed debt investors. Governments that heavily borrowed during the COVID-19 pandemic now find themselves compelled to adopt an expansionary fiscal stance to support businesses, to counteract rising energy costs and high borrowing expenses. Corporations, initially benefiting from historically high profitability post-pandemic, are now confronted with persistent cost escalations, challenging revenue streams and cash flow. These hurdles coincide with an environment of increasingly scarce capital. The scaling back of government stimulus packages and COVID loans reaching maturity may coincide with an inability to refinance and of banks lifting moratoria imposed by governments. In addition, similar to U.S. market dynamics, European companies have been steadily levering their balance sheets since the GFC. We believe the combination of supply chain disruption and inflationary pressures from the energy crisis will continue to challenge highly levered companies in light

of the increase in the cost of debt, ultimately leading to financial stress and distress, which can create opportunities for investors.

### Opportunistic Credit

#### European Par-Amount Leveraged Loans Outstanding in Secondary Market



Source: S&P LCD Q3 2024.

Opportunistic strategies seek complexity and dislocation in market segments where demand for capital exceeds supply. It is essential for managers of opportunistic strategies to have the agility to adapt their skillset to a changing market environment. In 2025, we expect a continuation of the opportunities that arose this year as the war in Ukraine has refocused bank lending to core assets and sponsors, reducing the supply of available capital in the market for small and medium enterprises. The inflationary effect of the energy crisis in Europe led to an aggressively restrictive monetary policy by the European Central Bank, negatively affecting credit metrics and leading to volatility and dislocations, in turn. This will continue to generate opportunities in the opportunistic credit space for companies with liquidity needs not met by the more traditional capital markets, requiring alternative sources of financing to fund growth. While the large opportunity set of leveraged loans provides primary opportunities, the secondary side continues to provide a healthy turnover of loans in Europe, also in times of market stress, from which managers can source opportunities.

### Alternative Yield

Alternative yield managers pursue a broad array of niche strategies. These managers tend to target one small industry, requiring highly specialized expertise. While the market in the United States is significantly deeper, in Europe, asset-backed loan portfolios, catastrophe bonds, funds specializing in non-life settlements, and capital relief transactions with European banks are examples that have come to market. We like these types of non-traditional strategies because of the limited exposure to competition, the uncorrelated nature, and the attractive yield component.

Charts are for illustrative purposes only.

# Asia-Pacific

## Regional Context

Across the Asia-Pacific, macroeconomic fundamentals remain strong as most countries return to normalized levels of longer-term growth with muted levels of inflation. Sustainable macro tailwinds are expected to support continued economic stability and growth, driven by robust domestic demand, technological advancements and favorable intra-regional trade dynamics. With this view we have distilled the 2025 Global Megatrends into regional context and local opportunity themes in the Asia-Pacific.

	Regional Context	Local Opportunities
<b>Artificial Intelligence</b>	Continuous Tech Advancement Accelerated AI & Robotics Adaptation	Industrial AI Application Supply Chain Efficiency Consumer AI Apps
<b>Energy Transition &amp; Sustainability</b>	EV Adoption Carbon Neutrality	EV and Clean Energy Related Ecosystem Energy Storage
<b>Interest Rates</b>	Economic Recovery Conservative Use of Leverage	Consumption Growth-Oriented Buyout Real Assets
<b>Geopolitics</b>	Global Supply Chain Reorganization Intra-Regional Trade	Domestic Consumption Advanced Manufacturing Business Service Outsourcing AI & Robotics

Since September 2024, China has shifted its policy focus to stabilize the economy, aiming to end deflation and improve economic sentiment, setting the stage for a series of measures to support the equity market and stimulate growth. Looking ahead to 2025, Wilshire anticipates further fiscal easing and stimulus, as indicated by China's National People's Congress (NPC). Key areas of focus will include stabilizing the property market, increasing investment, and boosting consumption. China's long-term strategy will continue to emphasize tech-driven growth and high-value advanced manufacturing. Despite internal concerns such as local government debt and the real estate sector, the Chinese central government maintains a low debt level. A comprehensive debt restructuring plan has been introduced to address RMB 14.3 trillion of hidden local government debt, paving the way for increased investment spending in 2025.

Japan continues to attract strong interest from private market investors, particularly in the buyout and real estate sectors. The country's stable economic environment, cheap and widely available leverage, relative currency weakness in the short-term and the structured reforms make it a key focus for private market activities.

Across Asia-Pacific, consumption continues to be a major theme. India and Southeast Asia, home to 25% of the world's population, represent a significant business and consumer market. A combination of growing population, expanding workforce, low labor costs and the potential for productivity gains is highly attractive for inward investments over the longer term in these regions.

Geopolitics remains a critical concern for the region, with trade and tariff uncertainties under the Trump administration affecting not only China but also other export-oriented countries in Asia. For instance, the United States remains China's largest trading partner. This mutual dependency highlights the importance of stable trade relations between the two economic giants. On the other hand, India and Southeast Asia have benefited from the diversification of the global supply chain, with increased trade with both China and the western world.

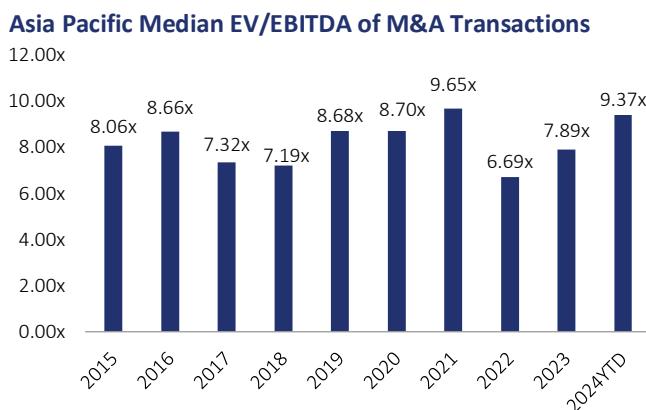
For exits, India's public market remains strong, partly bolstered by increased domestic participation and systematic investment plans (SIPs). This increased participation has helped create stronger and better exits in the region, providing a favorable environment for private equity investments. However, rising valuations may make new private investments more expensive. Meanwhile, exits for China's private investments continue to be challenging but the domestic IPO markets remain vibrant and public market performance is holding relatively strong. The Hong Kong IPO market has started to recover and is poised to be a major offshore public market exit channel. Additionally, U.S. IPOs for Chinese companies are making a comeback since the later part of 2024.

## Private Equity

Strategy	Outlook	Key
Buyout	●	● Highly Favorable ● Favorable ● Neutral ● Cautious ○ Unfavorable
Growth Equity	●	
Venture Capital	●	

Charts are for illustrative purposes only.

## Buyout



Source: Pitchbook, as of November 29, 2024.

With relatively lower inflation risk and lower interest rates as compared to the United States and Europe, the buyout markets in developed Asia-Pacific economies (including Japan, South Korea, Singapore, Australia and New Zealand) remain solid. Wilshire continues to see the mid-market space as the most attractive segment within the Asia-Pacific buyout space given its supply-demand imbalance with strong deal flow, attractive valuations and significant value creation potential. Succession deals and growth-oriented buyouts (especially those related to market expansion) will continue to be the key themes in this region, while carve-outs and take-private transactions are expected to increase. Geographically, Wilshire sees interesting mid-market buyout funds opportunities in Japan and South Korea in the coming year. It is also noted that significant capital in the large-cap buyouts segment will be raised in 2025 as a number of Pan-Asia-focused prominent names are returning to the market.

## Growth Equity

### Asia Pacific Buyout and Growth Capital Investment

#### Deal Value



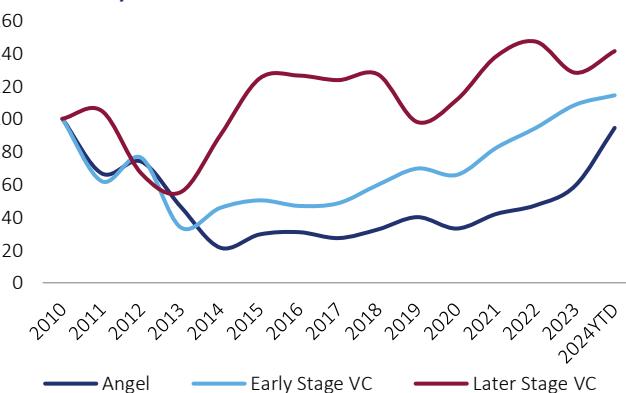
Source: Preqin, as of November 27, 2023.

Growth equity remains the largest segment within private equity, mainly driven by deal flow in developing Asian countries. 2024's decline in growth capital deal value, reflected an overall slowdown in investment activity due to macro uncertainties and slower fundraising progress, particularly in China. One of the key reasons for this phenomenon was the decline in pre-IPO and late-stage investments made during the year as public market performance remains weak. We remain bullish to China growth capital investments in the long term, as macro fundamentals remain intact, and the government still has ample room for fiscal and monetary stimulus for further long-term growth.

For 2025, we expect interesting opportunities arising from India and Southeast Asia, driven by longer term macro tailwinds and reshuffling of global supply chains in the region. Wilshire will focus on managers that are cycle-tested and emphasize tangible operational value-add and exits.

## Venture Capital

### Asia-Pacific Venture Capital Pre-Money Valuation Index (2010 = 100)



Source: Pitchbook data, as of November 29, 2024. Indexed with 2010 as base year and using the median of pre-money valuation.

2024 was a tough year for the venture capital market in Asia-Pacific with the continuous decline in fundraising, investment and exit activities. Nonetheless, valuations across the VC spectrum have seen slight upticks in entry valuations, as existing dry powder clusters into a smaller pool of high-quality, serial founders in the current environment. We view the current market correction as a window to establish relationships with top VCs that are access-constrained, and will focus on GP's portfolio construction and domain expertise, their understanding of government policies and national economic directions, ability to exit investments via multiple channels, and their experience through various economic cycles.

Charts are for illustrative purposes only.

In a somewhat contrarian stance, Wilshire continues to be bullish to China VC, which is the biggest VC market in the region (second largest in the world) with a mature ecosystem. Notably, two key sectors are expected to drive the largest returns over the longer term – electric vehicles (EV) ecosystem and artificial intelligence (AI). Specifically, we favor funds focusing on the EV ecosystem (not EV brands) and AI applications in industrial and consumer use.

Wilshire will increasingly explore emerging opportunities in the Indian VC market which is maturing rapidly. This maturation is reflected in the increasing number of viable exit opportunities. The IPO market is seeing higher local retail participation, driven by the Systematic Investment Plan (SIP). Secondary exit opportunities have also become more viable with increasing interest in the market.

For the rest of the Asia-Pacific VC markets, Wilshire focuses on the top echelons in each market and their discrete growth drivers. For example, the focus of software in Japan is on efficiency and digitalization of traditional businesses; while Australia sees an emerging wave of bootstrapped entrepreneurs seeking institutional capital. Southeast Asia and Australia have also seen an emerging trend of high-quality entrepreneurs relocating out of China, seeking non-Chinese VC backing, which can potentially drive a new wave of innovation and opportunities across the region.

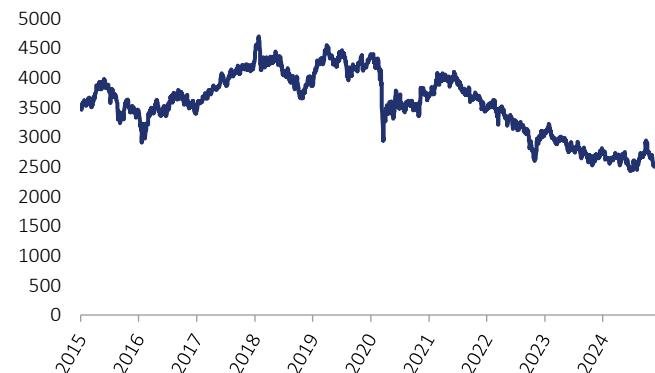
Overall, the VC ecosystem across the region continues to develop driven by structural demographic shifts, high adaptability to technology, and favorable government policies. We find early stage focused VCs that have a strong local presence and networks in key markets, differentiated strategy, a time-tested track record, as well as the ability to exit investments via different channels to generate meaningful realizations most attractive.

## Private Real Assets

Strategy	Outlook	Key
Real Estate	●	Highly Favorable
Natural Resources	○	Favorable
Infrastructure	○	Neutral

### Real Estate

#### S&P Asia Property 40 Index



Source: S&P Capital IQ, as of November 29, 2024.

Asia-Pacific real estate enjoys sustainable macro tailwinds. Warehousing, logistics, and data centers continue to benefit from the increase in e-commerce activities, continuous digital transformation, and rising demand for AI and cloud computing in the region. Offices, particularly those in major metropolitan cities and in high quality and landmark locations, receive strong demand due to continuous urbanization and a generally weaker work-from-home culture in Asia Pacific (with the exception of Australia) relative to the United States and Europe. The hospitality sector has returned to pre-COVID levels of activity as travel restrictions are lifted and now face a shortage of high-quality supply. Residential real estate remains resilient in most metropolitan cities in the key Asia-Pacific economies, apart from China. Nonetheless, the crackdown in the China residential property sector has ended and the government understands the need to improve sentiment and has pushed for the growth of affordable housing. The recovery of China real estate is expected to be prolonged, which affects consumer confidence and sentiment that hinges on real estate value.

Overall, we are favorable to (i) value-add and opportunistic strategies within the Asia-Pacific real estate market, and (ii) pan-regional funds (with an emphasis on developed Asia, particularly Japan and Australia) due to their geographic diversification benefits. All in all, economic, demographic, and cultural factors distinct to Asia-Pacific support sustainable real-estate demand across multiple sectors with discrete and uncorrelated growth drivers both intra-regionally and relative to the U.S. and European markets. Wilshire also observes that, generally, Asia-Pacific real estate funds' level of returns have lower volatility compared to peers in the United States and Europe, and believes that adding Asia-Pacific within portfolios can provide strong diversification benefits for investors.

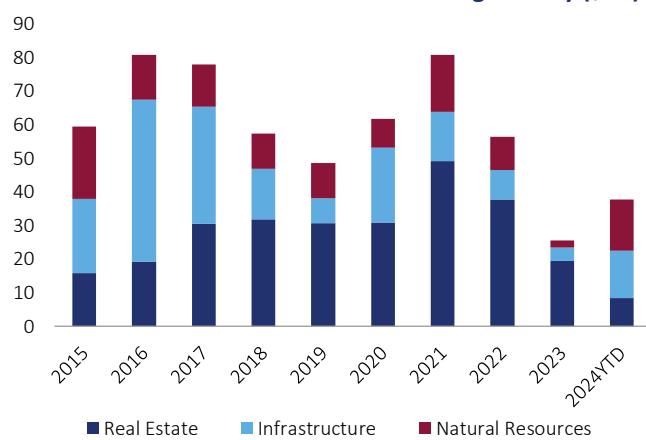
Charts are for illustrative purposes only.

## Natural Resources

Fundraising activities for natural resources funds in Asia-Pacific have remained low since 2013. This trend in part results from the lack of clarity in the energy sector, as energy supplies in Asia remain insecure. Overall, Wilshire sees the risk-return profile of Asia-Pacific natural resources as less attractive compared to other regions or other strategies within Asia-Pacific.

## Infrastructure

### Asia-Pacific Private Real Assets Fundraising Activity (\$bn)



Source: Preqin, as of November 29, 2024.

Robust infrastructure investments and development are expected to continue. Together with the recovery in economic activities in the post-COVID era, Asia-Pacific infrastructure looks to benefit from the increasing supply of capital. Nonetheless, participation from global institutional investors is expected to remain low, given the relatively high political, regulatory and commercial risks involved. Overall, Wilshire perceives that the risk-adjusted return in Asia-Pacific infrastructure investments does not appear to be superior to the developed markets in Europe and the United States.

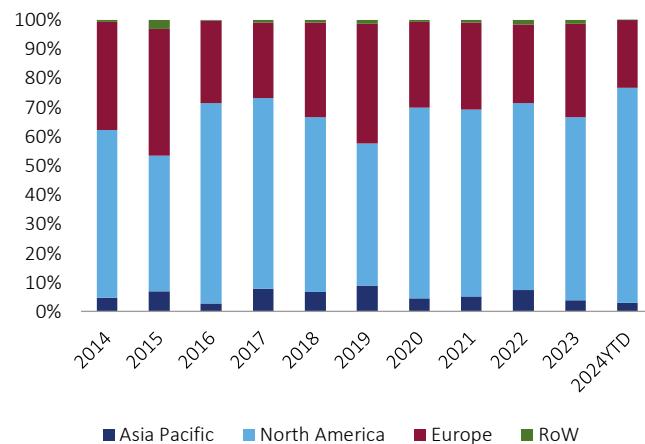
## Private Credit

Strategy	Outlook	Key
Direct Lending	●	● Highly Favorable ● Favorable ● Neutral ● Cautious ○ Unfavorable
Distressed Debt	●	
Opportunistic	●	
Alternative Yield	N/A	

Charts are for illustrative purposes only.

## Direct Lending & Distressed Debt

### Proportion of Aggregate Capital Raised by Direct Lending Funds



Source: Preqin, as of November 29, 2024.

In Asia-Pacific, credit supply heavily relies on the local banking system. Private credit and alternative financing are still at the nascent stage of development, presenting a significant runway for long-term growth. With strong demand for credit in the post-COVID recovery stage, Wilshire expects more opportunities to arise from the Asia-Pacific private credit segment. However, the sample size of managers with the expertise, track record, and local network to successfully navigate the strategy in terms of origination, structuring, and risk management remains small. While leverage is generally lower and less of a key driver of returns in Asia-Pacific, other issues such as legal and regulatory risks are more prevalent in this market. Exposure to direct lending in Asia Pacific could provide diversification benefits to investors who have existing private credit exposure in the developed markets. Overall, Wilshire tends to be highly selective and overweight (i) direct lending strategy, (ii) developed Asia opportunities with established legal credit practices, and (iii) managers adopting a diversified approach in terms of sectors and geographies, from a risk adjusted return perspective.

# Marketable Alternatives

## Macro Context

The assumptions about 2024, of decelerating growth, potential recessions and a more-challenged risk asset environment, were confronted with another strong year in equities and near all-time-tight credit spreads. Markets were driven by the United States having navigated through the inflationary concerns without the need for significant demand destruction, affirmed by several rate cuts by the Fed in the latter half of the year. However, the expectation for further cuts has significantly waned in the face of resilient economic data, creating uncertainty for the 2025 rate environment. U.S. exceptionalism will come under scrutiny as the United States further diverges from the rest of the world, and the new administration's policies could create further tensions. The U.S. deficit could come into sharp focus in 2025 and create volatility for markets.

Our outlook for marketable alternatives remains favorable across a wide array of strategies given the precarious position of risk assets and a myriad of economic, monetary, and geopolitical risks facing investors in the new year.

	Macro Context	Micro Considerations
Artificial Intelligence	Generative AI Digital Economy	AI Infrastructure Energy Infrastructure Digital Assets Software
Energy Transition & Sustainability	State vs. National Policy Divergence EV/AI Energy Needs	Carbon Markets Renewables/Clean Tech Nuclear Renaissance
Geopolitics	Middle East Conflicts Policy Dispersion Trade Tensions	Industrial Onshoring Discretionary Macro Commodity Trading
Interest Rates	Developed Market Deficits Economic Divergence Inflationary Dynamics	Developed Markets Emerging Markets Relative Value Event Driven

Despite a notable change in sentiment from 2024, as markets seem very constructive on the resilience of the U.S. economy in 2025, stretched valuations and tight credit spreads result in a cautious view regarding directional equity and credit strategies. However, we maintain our expectations regarding higher interest rates relative to the post-GFC period and expect a corresponding higher baseline level of volatility across asset classes, continued pressure on corporate balance sheets, and greater dispersion between regions, sectors, industries, and companies. This environment should continue to be

particularly advantageous for actively traded and relative value-oriented strategies.

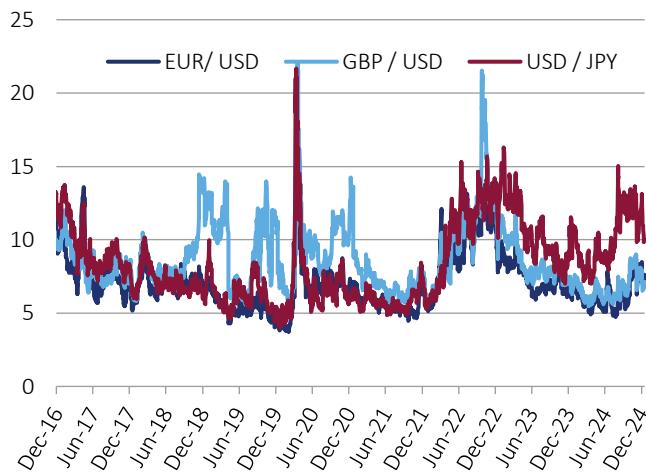
Within equity and credit strategies, we recognize significant tailwinds in particular sectors such as financials, defense, energy, infrastructure, and artificial intelligence; however, the headwinds of valuations, higher rates, and macro uncertainty lead to a preference for market neutral or low beta equity managers and actively traded long-short credit strategies purposed toward capturing dispersion-driven opportunities. We also recognize compelling opportunities in structured credit, offering several advantages over similarly rated corporate credits. We are less constructive on stressed/distressed credit strategies; while we believe higher rates will continue to exert pressure on balance sheets, traditional distressed opportunities have yet to materialize, making it difficult to hold dedicated exposure to these managers.

Diversifying multi-asset strategies remain compelling in an environment of macro uncertainty and high dispersion, particularly in relative value applications. Higher rates will continue to drive opportunities in fixed income relative value, convertible arbitrage, and volatility trading, and we favor these strategies both on a standalone basis and within multi-strategy funds with the ability to deploy across several of these opportunity sets. Discretionary macro strategies can also enjoy an above-average opportunity set, better equipped in our views to navigate the current environment than directional systematic strategies like systematic macro and trend following. Emerging markets have shown promise, with rising debt issuance, asset flows, and compelling carry. The opportunity set remains appealing, but assets and country selection is key to benefit from the current environment, and it can come with higher volatility in returns.

## Marketable Alternatives

Strategy	Outlook	Key
Sys. Macro/CTA	●	Highly Favorable
Discretionary Macro	●	Favorable
Equity Hedge	●	Neutral
Marketable Credit	●	Cautious
Event Driven	●	Unfavorable
Relative Value	●	

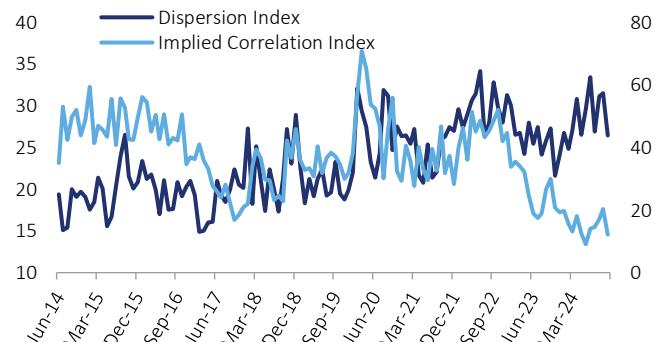
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**Macro/CTA****Implied 1-Month FX Volatility**

Source: Bloomberg. As of December 16, 2024.

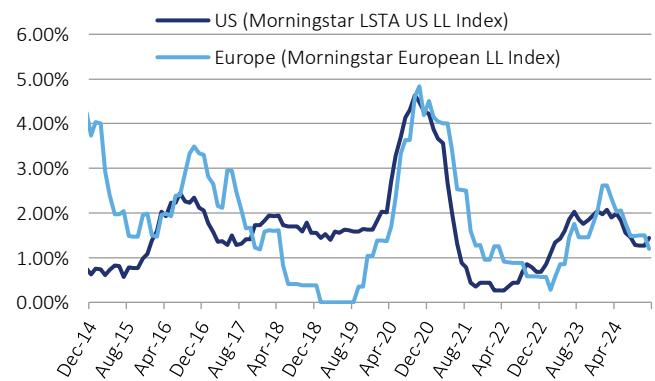
Macro managers enjoy a fruitful opportunity set relative to the post-GFC decade given the magnitude of uncertainties regarding growth, inflation and geopolitical tensions; however, the reaction function of central banks has become increasingly data dependent, leading to rapid swings in sentiment and market reversals as investors look for confirmation regarding the path of U.S. interest rates. With more political, monetary and fiscal divergences, one can expect fundamentals to remain a key driver, offering country-specific trading opportunities across asset classes, particularly in rates where discretionary macro tends to have an edge. Foreign exchange has also made a comeback as an investible asset class after a few years of low volatility, which can serve as another major source of opportunities for discretionary macro strategies. The current data-driven environment and mounting geopolitical risk environment stresses the need for shorter trade horizons and actively traded positions relative to longer-term thematic and trend following portfolios.

The improvement of the opportunity set in emerging markets is notable, with higher debt issuance and lessening outflows. Carry opportunities in emerging markets are also noteworthy as U.S. rates come off the recent peaks. Higher yielding EM credit remains appealing, especially countries that may be immune from U.S. tariffs with high reserves and solid fundamentals. However, our optimism is tempered by the potential pause in the rate cutting cycle as economic data in the United States remains resilient, and perhaps more notably, the incoming Trump administration which poses significant policy uncertainty and will very likely introduce more volatility. Asset and country selection will be key as EM remains an alpha (rather than beta) play.

**Equity Hedge****CBOE S&P 500 Dispersion and Implied Correlation**

Source: Bloomberg. As of November 2024. Chart measures 3-month implied correlations.

Equity hedge strategies are presented with a robust opportunity set given significant dispersion between companies, sectors, industries and geographies, and while rising equity markets and declining volatility have limited alpha on the long side of the book, short alpha has been substantial. Current equity valuations and macro uncertainty primarily motivate our cautious view towards directional, higher beta strategies. Absent any meaningful pullback in equities, we still expect long alpha to be difficult to generate, and instead favor market neutral and low beta funds to take advantage of the underlying dispersion we expect to persist as long as rates remain elevated. We continue to recognize sectors with substantial policy and secular tailwinds, such as financials, defense, technology, energy and infrastructure, though our enthusiasm for allocations to sector specialists remains tempered by the headwinds of stretched valuations and the potential for macro-driven volatility regarding rates policy, geopolitical conflicts, and the incoming administration.

**Credit****12-Month Corporate Default Rates**

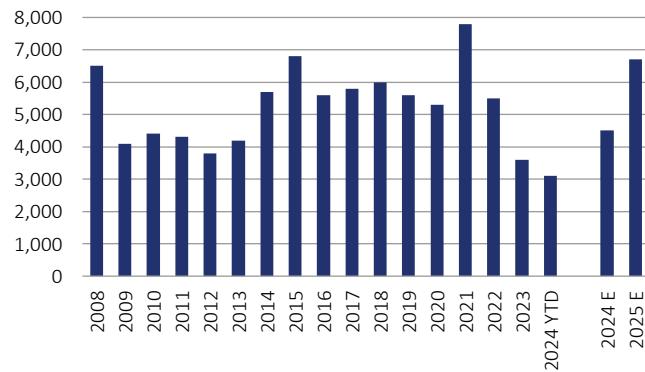
Source: Pitchbook. As of November 2023.

Charts are for illustrative purposes only.

We continue to favor credit-oriented strategies in 2025. While corporate credit spreads have ground to near all-time-tights, higher interest rates and elevated interest expense levels will continue to challenge balance sheets and drive issuer dispersion, creating a favorable environment for actively traded long-short credit strategies. However, despite these dynamics, we do not see a significant opportunity for stressed and distressed credit strategies. Financial stress and default rates continue to fall below expectations, and the many distressed opportunities are increasingly replaced by stressed exchanges. Absent a significant change in economic expectations, we believe the distressed opportunity set will continue to be constrained. We continue to favor structured credit given the meaningful yield pickup relative to similarly rated corporate credit issuances, as well as several structural benefits (subordination, floating rate, liability arbitrage) relative to other areas of the credit markets. Lastly, we continue to favor exposures less sensitive to macro volatility, including non-traded short duration credit (e.g., receivables factoring, working capital finance) given more control over price and structure relative to the CUSIP space, and insurance-linked securities which continue to benefit from robust spreads and higher attachment points relative to history.

### Event Driven

#### Announced Global M&A Activity (\$B)



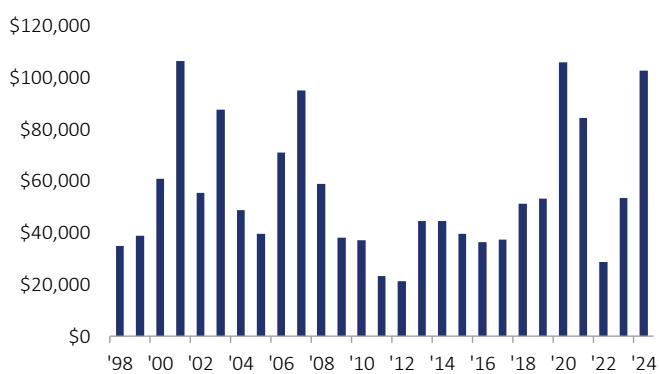
Source: Dealogic, Morgan Stanley Research. As of September 2024.

The event-driven outlook is cautiously optimistic, as we recognize the potential for an improved opportunity set particularly within risk arbitrage given the incoming Trump administration and regulatory visibility. We assume an easing of anti-trust sentiment and a corresponding pickup in corporate activity, which will yield a broader opportunity

set for event-driven strategies particularly in strategic deals. However, if interest rates remain particularly high, this may hamper financial sponsor transactions given higher financing costs. Event-driven strategies would also benefit from a re-opening of IPOs, listings, and related capital markets activity. More broadly, special situations managers are likely to benefit more than pure distressed debt specialists given more flexibility.

### Relative Value

#### U.S. Convertible Bond Issuance (\$M)



Source: Bank of America Global Research ICE Data Indices. As of November 20, 2024.

While several vectors of uncertainty moderate our view of directional strategies in 2025, we hold a favorable view of relative value-oriented strategies, driven by the expectation of elevated interest rates. Convertible arbitrage remains compelling as we expect convertible bond issuance to remain robust given significant refinancing needs and current interest savings relative to high yield. Fixed income relative value is another bright spot, with elevated bond market volatility and Treasury market issuance driving dislocations. Given a stabilizing inflationary environment, incremental demand for duration also drives traditional fixed income arbitrage spreads, resulting in a broadly favorable environment for these strategies absent

substantial market stress. Volatility arbitrage strategies also enjoy a fruitful opportunity set given higher baseline market volatility and dispersion trading opportunities. Lastly, multi-strategy funds with the ability to deploy capital across multiple strategies, both within relative value and across marketable alternative strategies broadly, are expected to benefit from an environment of higher rates, dispersion and uncertainty.

Charts are for illustrative purposes only.

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