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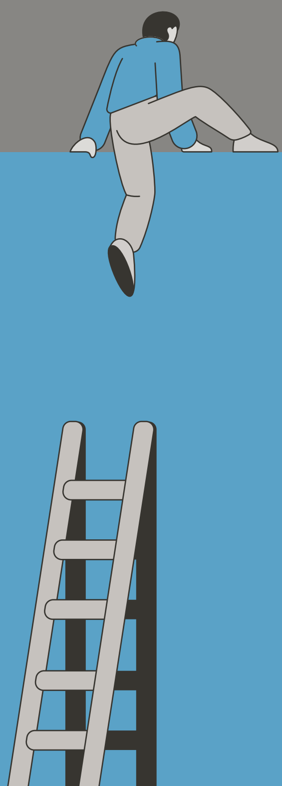

Crossing boundaries

Investment Outlook 2026

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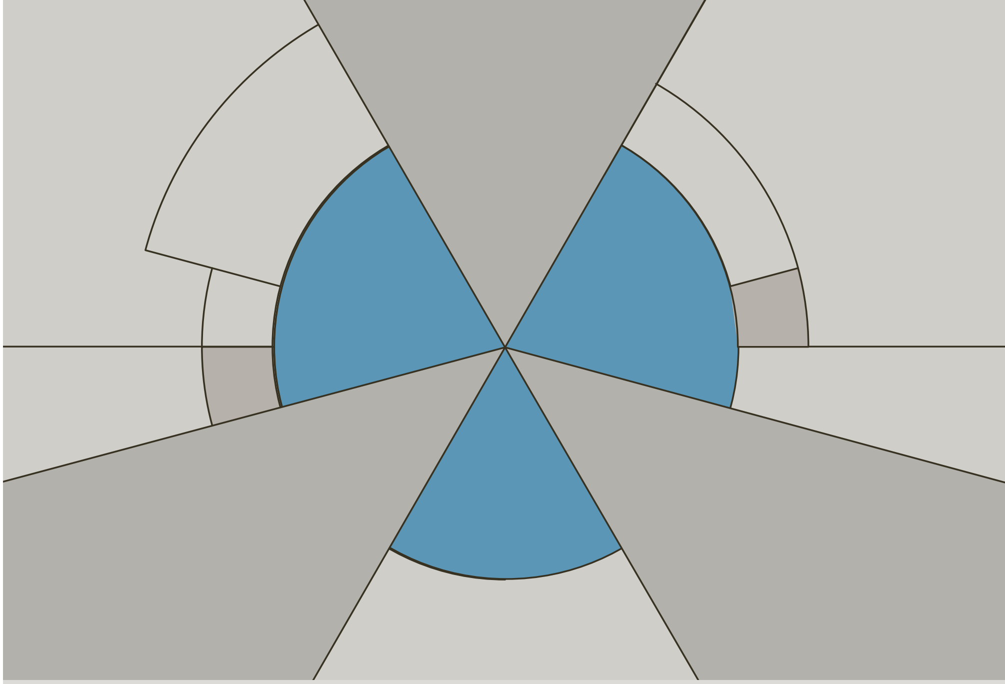
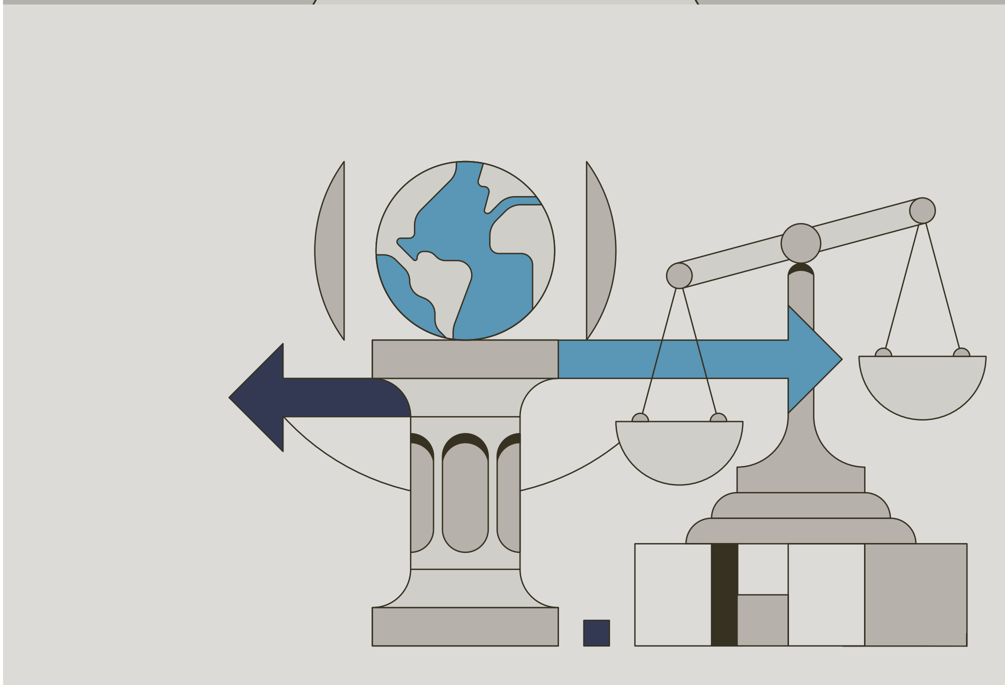
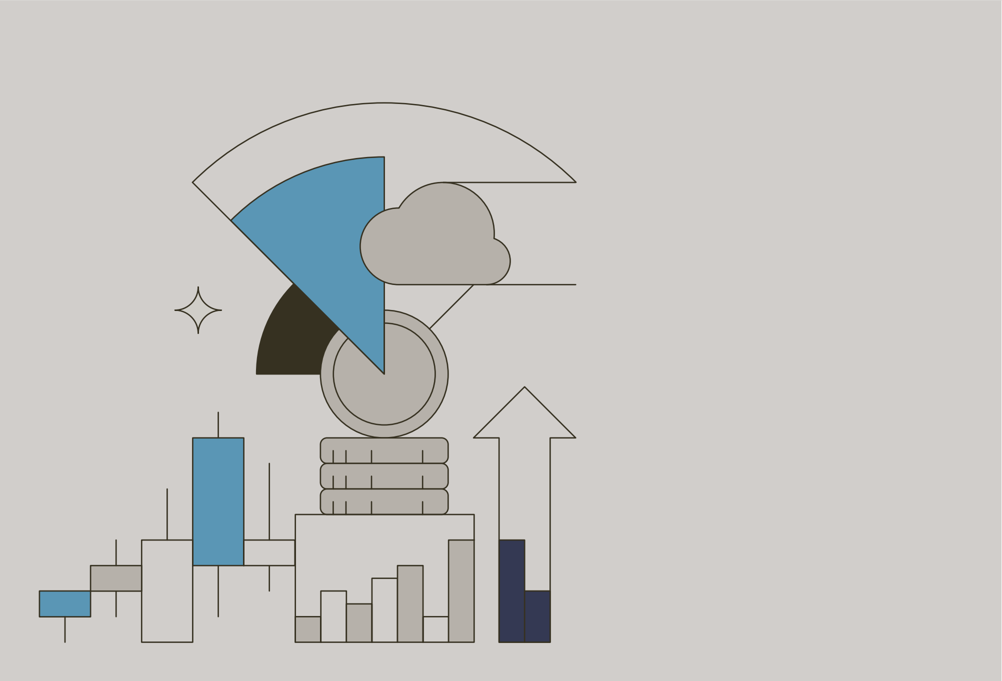






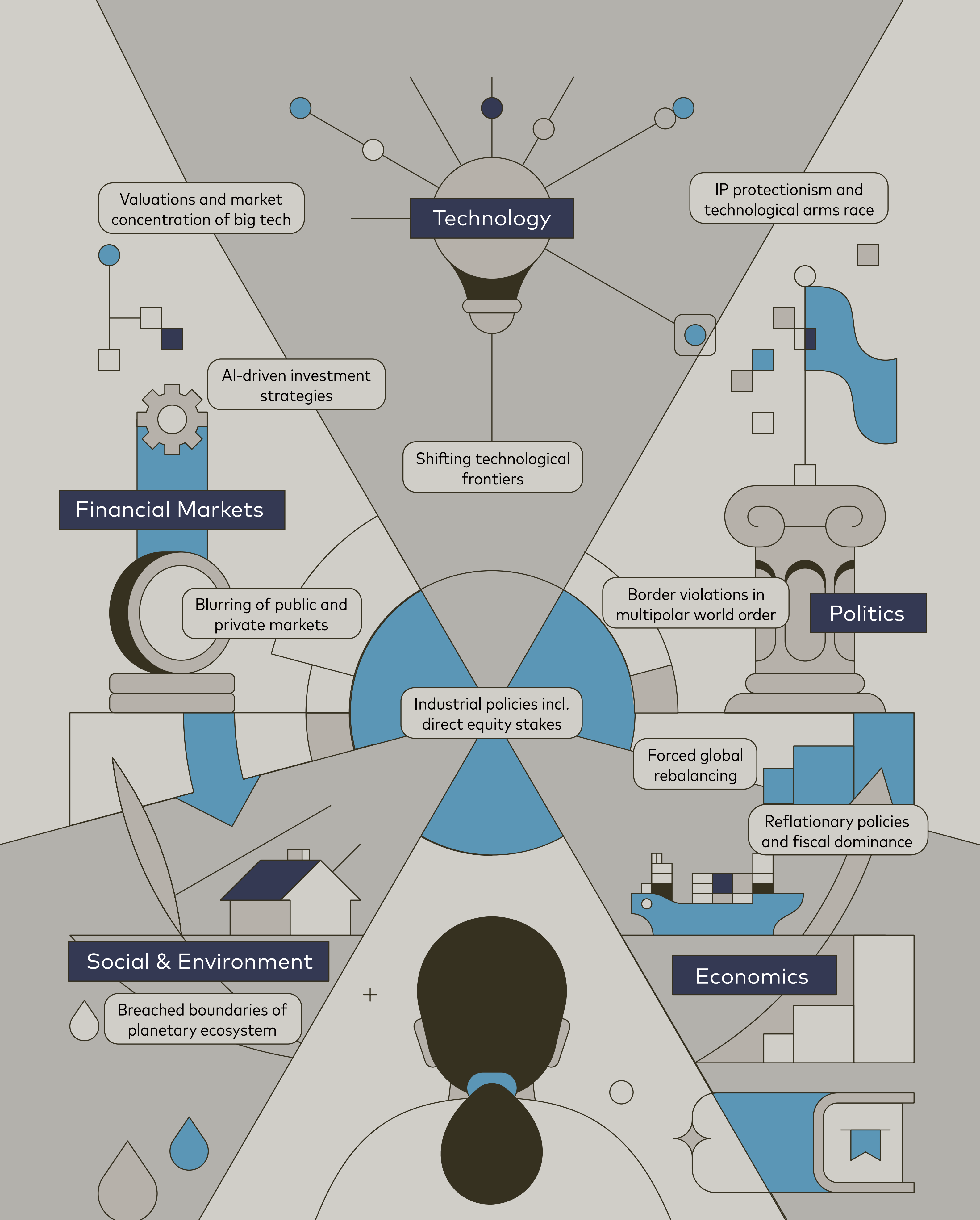
Introduction

Human progress has always been about breaking through boundaries and pushing the limits of possibility. For instance, the speed and implications of technological innovations spark nearly limitless imagination, at present. However, the disruption that we are currently witnessing is not confined to technology. Politics has also broken with established principles, and government actions are taking on new forms – challenging existing norms.

As we cross into unchartered territory, investors need to prepare for a world that could look decidedly different from the past. In our investment outlook, we discuss some of these boundary-breaking developments that are currently unfolding and explain how we believe investment portfolios should ideally be structured for success in 2026 and beyond.

In addition, we take a deep dive into the segments of the alternative investment landscape, where LGT Capital Partners has been active as a principal investor for over two decades. We share our observations and assessments on private equity, private credit, emerging and frontier market debt, real estate and infrastructure, as well as hedge funds and insurance-linked strategies. We also highlight recent trends, current challenges and attractive future investment opportunities. Finally, we provide an update on pertinent issues related to impact investing.

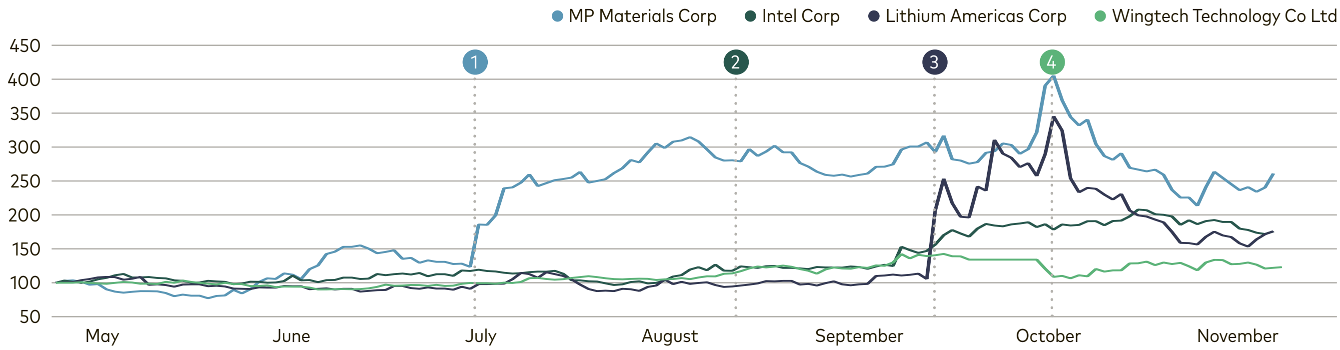
We hope that you will find this publication to be both insightful and informative and we invite you to share your views and ideas with us.


Technology
Valuations and market concentration of big tech
IP protectionism and technological arms race
AI-driven investment strategies
Shifting technological frontiers
Financial Markets
Blurring of public and private markets
Border violations in multipolar world order
Politics
Industrial policies incl. direct equity stakes
Forced global rebalancing
Reflationary policies and fiscal dominance
Social & Environment
Economics
Breached boundaries of planetary ecosystem

Crossing boundaries in 2026 and beyond

"Going public"

Rebased share prices, May 2025 = 100, illustrative only – not investment recommendations



1 MP Materials: Contract with US Department of Defense: offtake agreement for magnets and up to 15% equity stake in company

2 Intel Corp.: US government converts grants to company (from CHIPS Act) into 10% direct equity stake

3 Lithium Americas: US Department of Energy takes 5% equity stake and participates with 5% in lithium JV project

4 Nexperia: Dutch government seizes control of a European unit of Chinese chip maker Wingtech Co on national security concerns

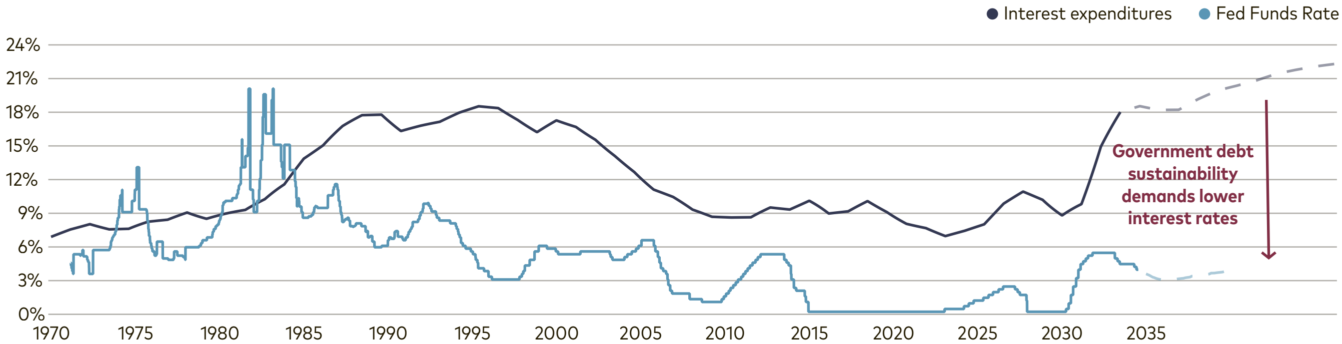
Source: LGT Capital Partners, Macrobond

From time immemorial, the public sector has influenced or intervened in the workings of the private sector. But arguably, government interference escalated to a new level in the decade following the Great Financial Crisis. In the US, hopes ran high that a re-elected President Trump and a Republican Congress would lighten the government's heavy hand. One year on, however, we are now merely observing an altered form of state-directed capitalism. While industrial policies to protect domestic businesses and/or to achieve national security goals are nothing new, the act of singling out companies one by one in order to punish or reward them surely is.

Alignment with the government's evolving policy priorities has now become a critical success factor for business leaders and investors alike. But governments taking direct stakes in companies may have crossed a line. Even if this measure is being applauded for now, it is unlikely to bode well in the long run.

Fiscal dominance of monetary policy?

Net interest expenditures[1] and policy rate[2], for the US

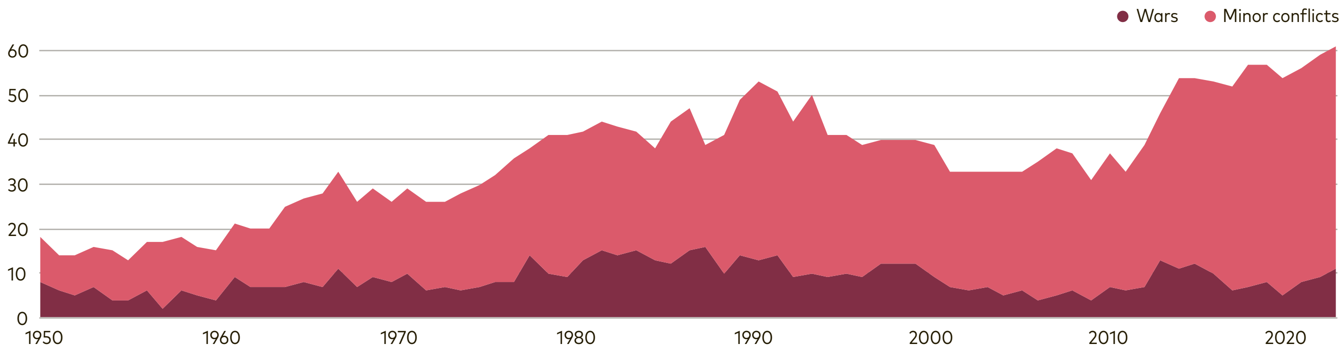


[1] in percent of total government revenues; actual and projections from Congressional Budget Office (CBO)
[2] Fed Funds Target Rate actual and implied by Fed Funds Futures (FFF)
Source: LGT Capital Partners, Macrobond

Another worrying development in the US is the Executive Branch's attempt to trespass into the domains of monetary policy. While central banks are part of government, their independence is usually enshrined by law and upheld by the courts. Notwithstanding President Trump's occasional attacks, this time-tested arrangement is likely to prevail in the US. For the Federal Reserve and other central banks around the world, the danger lies less in a de jure but rather in a de facto loss of independence. "Fiscal dominance" describes a situation where large public debt and deficits place severe constraints on what monetary policy can do without risking financial instability. This scenario has not yet materialized but we are perhaps moving in that direction. Averting bond riots and debt crises and aiding sovereign deleveraging will shape monetary policy in the years to come. As a result, we could end up with policy rates that are too low and inflation that runs too high.

Border violations

Total number of state-based armed conflicts

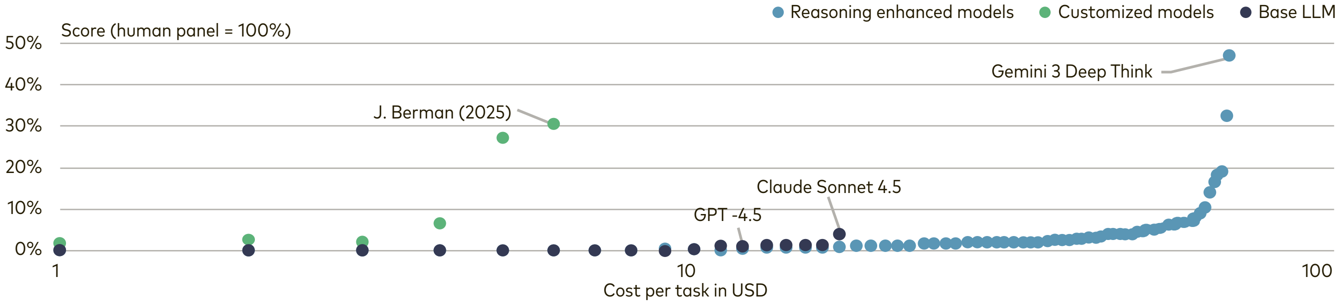


Source: LGT Capital Partners, Uppsala Conflict Data Program (UCDP)

For the most part, geopolitical events have only short-lived effects on economies and markets, even when they are quite dramatic in nature. What matters is whether the events are symptomatic of a major shift in the balance of power. Looking at current developments on the global stage, we believe this to be the case. With the US no longer willing to police the world, stable unipolarity has given way to an era of unstable multi-polarity. Smaller but more frequent conflicts and wars are the consequence, possibly with recurring supply shocks. In this new regime, diversification becomes paramount. Over the past few decades, much of the Western world has become overly reliant on the US – as a consumer of goods, a source of innovation, a supplier of arms and a destination for investments. As national economies and businesses seek better diversification, so too should global investors.

Eyes on the prize

AGI competition scoreboard[1]

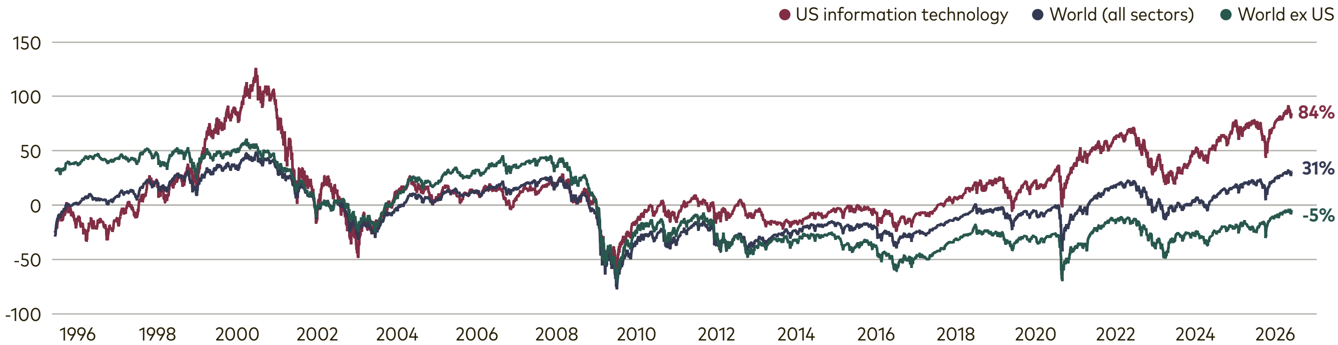


[1] ARC-AGI-2 challenges AI systems to demonstrate basic fluid intelligence, high adaptability and efficiency where the performance of a human panel set the benchmark (=100%)
AGI = Artificial General Intelligence, LLM = Large Language Model
Source: LGT Capital Partners, arcprize.org

The drive to build out artificial intelligence (AI) is, without doubt, leaving its mark on economic data and market performance. We expect this trend to continue, as the pursuit of technological leadership has become an issue of national security and, for many businesses, a necessity to survive and thrive. Meanwhile, the quest to reach or even exceed human-level intelligence carries on and, by many measures, still has a long way to go. Here, smaller and more targeted models have outperformed very large language models on multiple fronts, keeping competition alive. This, in turn, may call into question the massive capex spending of the hyper-scalers and add to lingering concerns over returns on investment. While our baseline view is that the buildout push is continuing for now, we also see two ways that this could go wrong: a classic over-investment bust or, alternatively, mass disruptions and labor displacements on the back of precipitous AI diffusion.

Top-heavy equity markets

Percent over-/undervalued based on a long-term valuation metric[1]



[1] Cyclically adjusted price-earnings ratios (CAPE), growth adjusted, log deviations from long-term median (30Y) of World index
Source: LGT Capital Partners, Bloomberg, Macrobond.

While AI continues to drive the rally in risk assets, we will likely see shifts in the market narrative around this technology. We think that more weight will be placed on the diffusion, adoption and implementation of AI tools going forward. Today, a fair amount of skepticism abounds both among business leaders and investors when it comes to efficiency gains outside the technology sector itself. If AI outlays start proving their worth, however, the equity rally could continue to broaden beyond the US tech sector, where market valuations are less demanding. China, for instance, is pushing hard for fast adoption and may even be ahead of the US, while Europe lags behind but has potential. Moreover, AI itself needs to become more efficient, especially in terms of its immense computing and energy needs. Innovation – and disruption – therefore need to churn at a fast rate, and we recommend a barbell investment approach (see asset allocation chapter).

In need of protection

The nine planetary boundaries

Source: LGT Capital Partners, Planetary Health Check 2025, Potsdam Institute for Climate Impact Research (PIK)

The crossing of planetary boundaries is perhaps the most consequential development. Planetary boundaries are a framework that measures and visualizes the impacts of human activities on the earth's ecosystems. According to the latest review[1], seven of the nine defined planetary boundaries have now been breached. This means that the changes to the environment are now too large to still be considered in the "safe zone" for human society. Entering the danger zone could entail catastrophic events and irreversible damage. Further, the shift towards the right in governments around the world has led to a withdrawal of ESG-related policies and funding. The private sector must therefore step up its own efforts. As a firm, we continue to execute our climate action plan, and we are building out our suite of impact investment solutions.

[1] Potsdam Institute for Climate Impact Research and the Stockholm Resilience Centre, Planetary Health Check 2025

Crossing boundaries – preparing investment portfolios for the future

The LGT Endowment's approach

We are currently facing an uncertain environment marked by political upheaval and technological disruption. Rising macro-economic volatility and changing financial market regimes are the likely consequences of the many boundaries that are shifting or being tested and breached – now and in the future. For investors, it is therefore paramount to adapt to this new environment and structure portfolios that are resilient in the face of many short-term uncertainties while, at the same time, being able to profit from long-term opportunities.

In the section below, we set out some of the driving factors that are likely to define the investment environment in the coming years. On the opposite page, we outline portfolio measures that we consider crucial when preparing for and adapting to a profoundly changed world. As always, we have implemented these convictions ourselves in the LGT Endowment (see also "How we invest our own money" on page 30).

The current macro-economic and financial market environment is characterized by:

Benign trends...

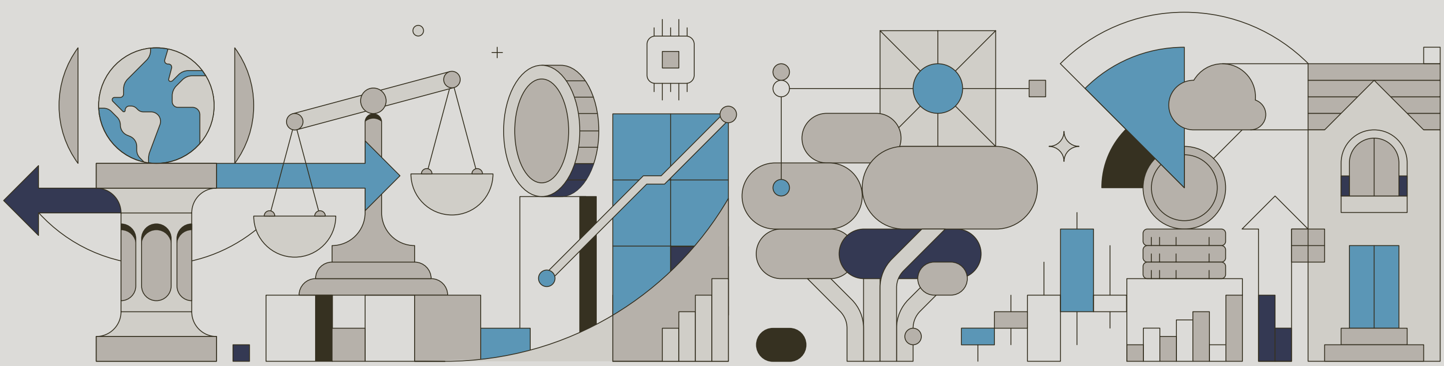
- Reflationary policies for higher nominal growth
- Efforts to correct economic imbalances
- A buildout push in AI and infrastructure
- Shifting possibility frontiers in technology

...but also:

- Government interventionism
- Geopolitical crises and supply shocks
- Elevated inflation risks
- Desynchronized global business cycles

....and:

- Elevated financial asset valuations and illiquidity risks
- Unstable stock-bond correlations
- High concentration of US assets in global investment portfolios
- A blurring of boundaries between asset classes



Portfolio measure	How we implement this measure
Include inflation protection	• Hold real assets such as real estate and infrastructure • Add to holdings of inflation-linked bonds • Dynamically manage exposure to gold
Diversify beyond US on global rebalancing	• Add to holdings of emerging market equities and debt • Focus on small- and mid-sized private equity opportunities in Europe and Asia • Hedge most US dollar exposure back to base currency
Hedge most foreign currency risks	• Hedge most foreign exchange exposures back to base currency • Retain residual exposure to diversifying "safe haven" currencies, such as the US dollar or the Japanese yen • Leave emerging and frontier market FX unhedged to capitalize on the positive interest rate carry
Reduce unattractive credit exposures	• Reduce high-yield bond quota • Shift from hard currency to local currency in EM debt • Favor Specialty Finance over Direct Lending in private credit
Barbell exposure to technology	• Maintain exposure to large tech platforms in public equity • Add to commitments in Venture Capital in private equity
Bank on AI-driven strategies	• Add to hedge fund strategies with an edge in AI/machine-learning, such as Quantitative Equity
Tap alpha sources across asset class boundaries	• Combine exceptional hedge fund alpha with passive equity market beta (portable alpha)
Strengthen alternative diversification	• Keep uncorrelated returns sources, such as insurance-linked strategies or discretionary hedge funds • Implement trading strategies with positive convexity, such as Managed Futures and Dynamic Protection programs
Monitor for anti-cyclical value opportunities	• Set up a system for deep value buying opportunities in liquid asset classes, such as equities, credit or cat bonds • Increase commitments to secondaries and co-investments in private markets
Manage illiquidity risks prudently	• Keep up conservative commitment pace and manager selection in private markets • Keep within limits and bandwidths on illiquid investments • Add semi-liquid structures to improve profile
Invest with positive impact	• Aim to incorporate ESG considerations throughout the investment process • Seek exposure to dedicated impact investment programs in private debt, public and private equity

Private equity

Robust return drivers

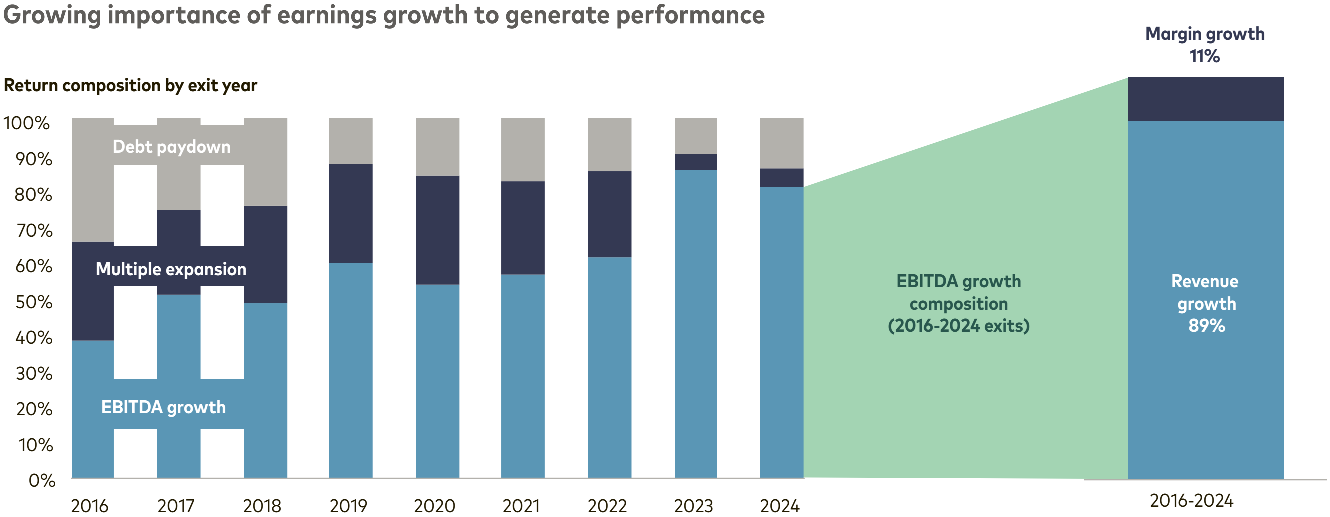
Looking ahead, you will find private equity at a fascinating crossroads. The industry has weathered many storms – from macroeconomic uncertainty and shifting geopolitics to regulatory complexity and evolving investor sentiment – yet it continues to adapt and thrive. What is driving this resilience? Some of the answers can be found in the industry's ability to identify opportunity in volatility, to innovate when others hesitate and to focus on long-term value, even as the world changes at breakneck speed.

While performance has trailed public markets since the 2021 peak, returns have remained steady. Buyout funds, for example, have continued to deliver strong net internal rates of return when assessed over the longer term. Importantly, the main driver of returns has shifted from multiple expansion to earnings growth, reflecting a more sustainable, operationally focused approach to value creation. Going forward, strong entry pricing in post-peak years (2023-2024) is expected to support future outperformance.

Deal activity seeing a rebound but distribution yields remain low

Deal activity in private equity has shown promising signs of a rebound, with deal value in 2025 on course to surpass the levels seen in 2023 and 2024[1]. North America and Europe have continued to lead global buyout volumes with Q3 2025 seeing a sharp uptick. At the lower end of the market, small and mid-market transactions continue to show healthy momentum and to attract strong investor interest. The availability of credit has also remained robust, giving managers

Growing importance of earnings growth to generate performance



Trends depicted here are for illustrative purposes, there is no assurance or guarantee that trends will continue.
Source: LGT Capital Partners database, data as of 31 December 2024.

[1] Pitchbook, The Q3 2025 Global PE First Look.

flexibility to structure deals and pursue growth opportunities.

However, the industry is contending with a significant build-up of “dry powder” now exceeding USD 1.1 trillion, which is intensifying the pressure on managers to deploy capital. Liquidity also remains a central concern. The median holding period for portfolio companies has extended beyond six years[1], and the global buyout market now holds over USD 3.1 trillion[2] in unrealized value. The overall distribution yield across vehicles remains well below historical levels, partly fed by persistent mismatches between buyer and seller valuation expectations. In response, the secondary market is booming. According to forecasts, transaction volumes could exceed USD 200 billion in 2025, as both LPs and GPs seek alternative liquidity solutions.

The reopening of the IPO window suggests a modest improvement in market sentiment. That said, recent listings have mostly featured profitable companies and those with AI exposure, while the broader pipeline of IPO-ready assets remains sparse. As interest rates become more favorable, IPO activity could gradually pick up, supporting deal-making and contributing to a recovery in distribution yields over time.

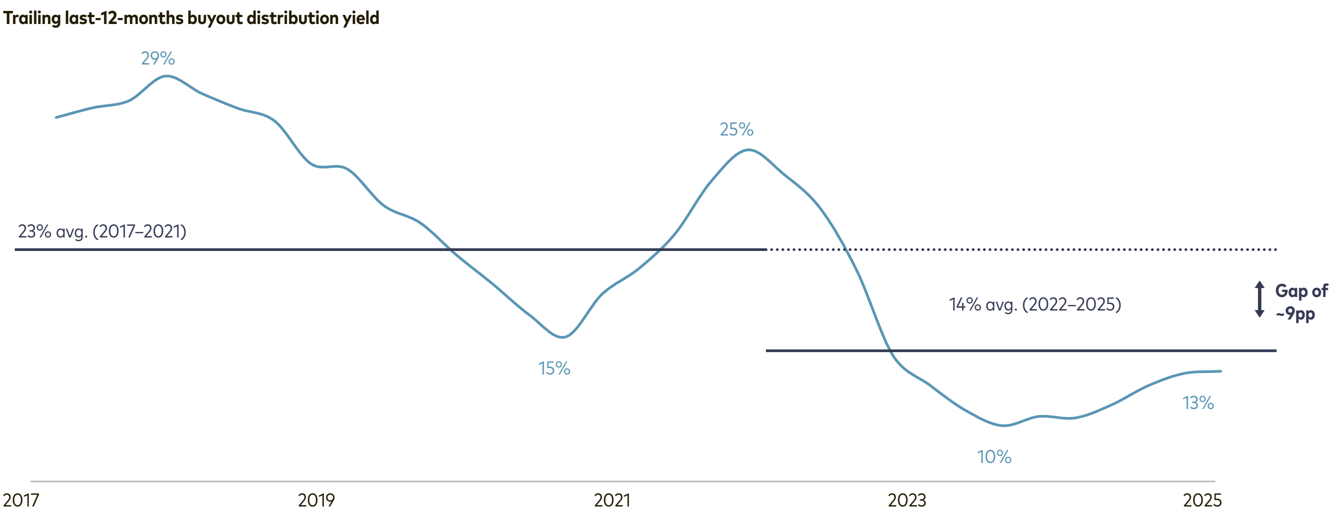
Fundraising crosses boundaries

The industry's long-term growth trajectory is intact, with assets under management continuing to expand. However, the pace of fundraising has become more moderate, as demonstrated by the extended time to final close across all quartiles.

This normalization suggests a more selective LP environment in which established relationships and strong track records are key to attracting investors. Small and mid-market buyouts remain especially attractive. These deals are generally more cycle-resilient, benefit from lower entry multiples and are less reliant on market timing for successful exits. However, access to these opportunities is becoming more restricted, making strong relationships and deep networks more critical than ever for investors seeking exposure.

Another notable trend is the increasing importance of retail and wealth management in private equity fundraising. High-net-worth individuals and affluent retail investors are increasingly able to participate in private equity through semi-liquid funds, feeder structures and evergreen vehicles. This crossing

Significant decline in distribution yield creates pressure to generate alternative liquidity[3]



[3] Global buyout distribution rate is calculated as distributions as a percentage of net asset value. Trends depicted here are for illustrative purposes, there is no assurance or guarantee that trends depicted will continue.
Source: LGT Captital Partners, Cambridge Associates, vintage years 2010-2025.

[1] Bain & Company, Private Equity Midyear Report 2025.
[2] Preqin; data includes Buyout category as defined by Preqin. Data as of 31 December 2024.

of boundaries between different investor types and liquidity structures is unlocking new pools of capital, supporting industry growth and further diversifying the investor base.

As evergreen and semi-liquid fund structures become more prevalent, it is increasingly important to maintain rigorous underwriting standards. Investors should carefully assess the quality and sustainability of deals within these vehicles, as some structures may include transactions that would not typically meet the criteria of traditional closed-end funds. Prioritizing long-term value creation and robust fundamentals over short-term gains is essential, avoiding the temptation to pursue rapid mark-ups.

Accessing the shifting technology frontier

The private equity ecosystem continues to provide access to high-innovation sectors, including technology, healthcare and industrials. The ability to back companies early in their growth trajectory remains a hallmark of the asset class, with many now-established public companies having generated significant value for early private investors.

AI is rapidly becoming a defining force in private equity. Leading private equity firms are not only investing in AI-driven companies but are also embedding AI across their own operations and portfolio companies. Centralized AI enablement teams are supporting portfolio companies with data science expertise, toolkits and playbooks. This allows for replicable value creation in areas such as customer targeting, pricing optimization, cross- and up-selling and process automation.

While the opportunities are significant, the rapid evolution of AI brings new risks. These include the potential for model obsolescence, high failure rate on capital invested, data privacy concerns and regulatory challenges. The most successful firms are those that strike a balance between innovation and robust risk management, ensuring that AI adoption is both responsible and sustainable.

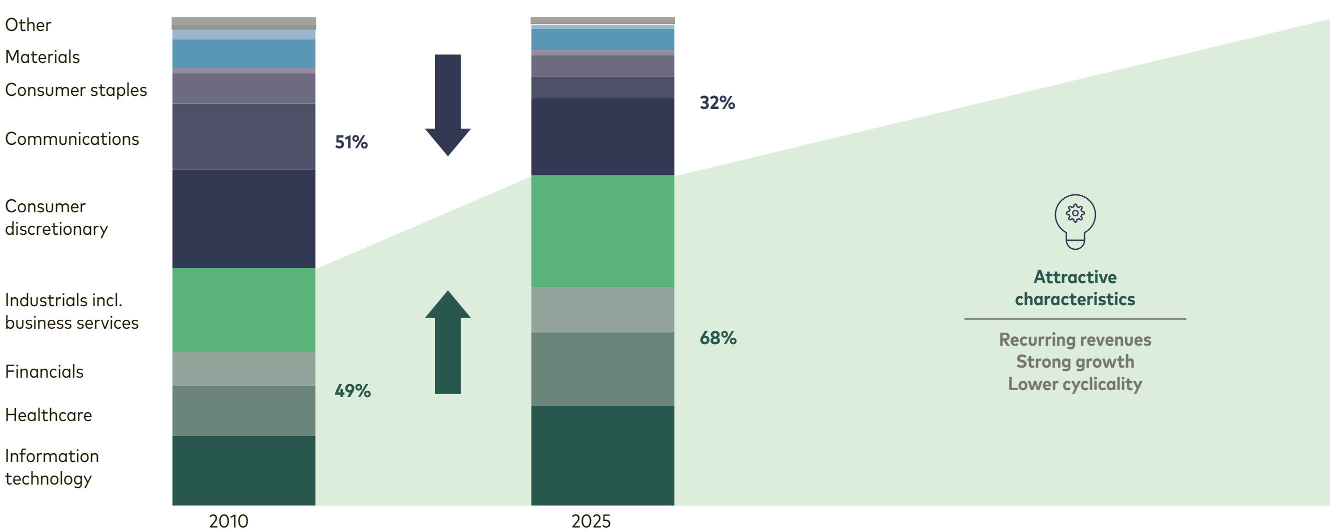
The keys to future success

Looking ahead, the winners in private equity will not just be those that deploy capital — but also those that do it with discipline, creativity and a relentless focus on value. In a world that is more complex and fragmented than ever, success will belong to those managers that blend deep sector expertise with the willingness to embrace innovation and hands-on execution.

The opportunities are there for those ready to seize them. As buyer and seller expectations finally start to align, we are poised for a more dynamic deal environment — one where constructive partnerships and fresh thinking can unlock new sources of growth. The year ahead will not just present challenges but will also bring immense opportunities for leading players to shape the future of private equity.

Private equity provides access to high innovation sectors that are driven by mega-trends

Invested capital across LGT CP managed portfolios by industry



Source: LGT Capital Partners' database. Data as of June 2025.

Private credit

The case for diversifying into European credit

Diversification has long been a central pillar of private credit investing. The current macroeconomic environment, geopolitical instability and rapidly evolving market dynamics underscore its growing strategic importance. Investors must be prepared to navigate volatility, respond to dislocations and maintain portfolio resilience through a multidimensional approach that prioritizes geographic, sector, size and strategy diversification.

Using direct lending as an example, we currently see relative value in Europe compared to the US, with wider spreads, stronger documentation and lower default rates. European companies tend to operate with lower leverage and benefit from more conservative underwriting standards. In contrast, the US market, although larger and more liquid, is currently facing tighter credit conditions and elevated default expectations. That said, as relative value can shift, staying active in both markets allows for flexible allocation and helps mitigate local risks across cycles, regulations and borrower behaviors.

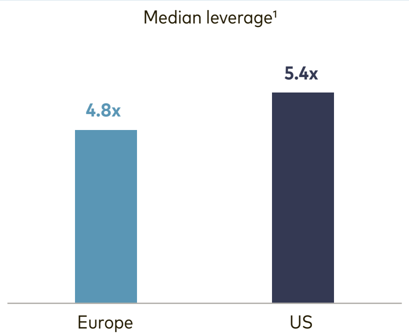
Adapting to a new (geo) political regime

Sector diversification is equally critical. Certain industries face structural headwinds that could impact credit performance. Capital goods businesses are increasingly exposed to tariff risks and supply chain disruptions, particularly in a deglobalizing world. Meanwhile, software and business services – once considered defensive – are experiencing the transformative impacts of AI, which is reshaping business models, driving efficiencies and generating pressures that may alter margins and positioning. A well-diversified sector and borrower mix helps to insulate portfolios from concentrated exposures and allows for tactical reallocation to capture upside where innovation drives growth.

Size segmentation adds another layer of resilience. Large businesses are traditionally viewed as more stable due to scale, access to capital and diversified revenue streams. However, in a world where protectionism and regionalization are on the rise, national and local service providers may offer superior downside protection and even benefit from certain tailwinds. They

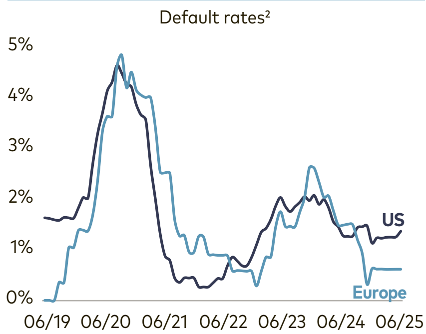
The European direct lending market remains attractive

European deals have lower leverage per transaction...



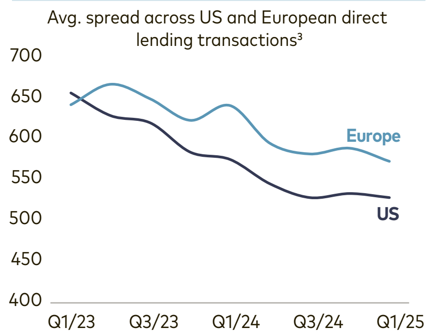
...reducing downside risk

Default rates remain low...



...with particularly lower levels within Europe

European direct lending spreads remain higher...



...compared to US deals

Source: LGT Capital Partners and
[1] ICG research & Market Analysis, as of September 2024, data retrieved in September 2025.
[2] Pitchbook LCD, US Morningstar LSTA Leveraged Loan Index and Europe Morningstar LSTA Leveraged Loan Index. Data as of 31 August 2025.
[3] KBRA, Data as of March 2025. Data shows US and European direct lending transactions. For illustrative purposes only and reflect the market observations of LGT CP.
Trends depicted here are for illustrative purposes, there is no assurance or guarantee that trends depicted will continue.

are less exposed to global trade and more embedded in local economies, making them attractive when cross-border activity is constrained. Smaller businesses also represent a highly attractive segment for bespoke financing solutions, especially as banks retreat from traditional lending.

An evolving opportunity set

When navigating shifting markets, flexibility across transaction types and sub-strategies is also important. The ability to monitor capital flows and pivot into areas where capital needs allow for attractive risk-adjusted returns – such as NAV lending, GP financing or credit secondaries – can unlock value and enhance portfolio agility. As private equity holding periods extend, fund-level financing needs are rising, driving demand for innovative structures. Credit secondaries are emerging as a mechanism for liquidity and portfolio rebalancing, especially during periods of market stress. As they offer diversification through older vintages, shorter durations and greater visibility into seasoned portfolios, they are particularly attractive in the current environment. They also allow for repricing based on underlying performance and enable accelerated portfolio build-up, making them a highly effective complement within existing private credit allocations. Investors who can dynamically allocate across sub-strategies are better positioned to capture alpha and manage risk.

Building resilient credit portfolios

Finally, the importance of rigorous underwriting cannot be overstated. Managers must rely on rigorous credit analysis, focusing on borrower quality, cash flow stability and covenant strength, combined with a focus on situations the lender is familiar with. While fundamentals do not eliminate risk, they provide a framework for informed decision-making and risk management. This disciplined approach helps investors to navigate complexity and maintain confidence in their portfolios.

As we look ahead, the private credit market remains attractive, but the way forward requires a more sophisticated and diversified approach. Geographic, sector and size-related diversification must be actively managed, while flexibility across transaction types and a firm commitment to fundamentals will be key for building resilient portfolios. As the market evolves, those who embrace a multidimensional strategy will be best positioned to navigate uncertainty and deliver consistent results.

Real estate

Overall, our outlook on the real estate industry is positive, given the fundamentals – with supply and demand generally balanced and the recent slowdown in new construction set to further enhance rental growth going forward. Occupier demand is also strong overall, notwithstanding concerns about tariffs or geopolitical shocks. And physical obsolescence – which has historically only been a theoretical valuation risk – is now real, resulting in a premium for modern stock that meets current occupier preferences.

Real estate in a world of shifting boundaries

While our general posture is positive, we believe that the industry itself is at a crossroads: transaction volumes continue to be muted, capital is slow to return to investors and capital raising is difficult as other asset classes offer higher-return alternatives. This lackluster market environment reflects recent secular changes in demand (e.g. the impacts of work-from-home policies on office occupancy), interest rate shocks (largely from the 2022 US rate hikes) and shifts in geopolitical frameworks (especially President Trump's "America First" doctrine). In parallel, we see a real estate industry with continued hyper-specialization, institutionalization of niche asset classes and advances in technology that are driving real estate profitability. In our view, it is these advances in technology and the overall "white collar industrial revolution" aided by AI that present an exciting opportunity for the real estate industry to transform workflows, data pipelines and decision-making systems and to essentially rethink how it does business.

Reaffirming the role of property investments

So where does this leave us? There are clear forces at work on a macro level (tariffs and geopolitics) that are reshaping trade routes and potentially also long-term occupier demand in certain segments. There are also a number of external factors, such as climate risk and rising energy costs, that might negatively impact business plans. These challenges, along with inflected capital structures and an anemic transaction market, mean that investors need to understand macro forces and to potentially reconsider their needs in terms of real estate returns. Are they seeking an alternative to private equity or a solid "store of value" that can provide durable, predictable cash

returns and appreciation? Similarly, managers or "practitioners" need to consider what they are delivering to investors. Is the traditional real estate "practice" in an LP-GP relationship sufficient to deliver real estate returns or is something else needed in the delivery model?

Our focus in 2026 and beyond

Going forward, we believe that both investors and practitioners will seek evolving business models that incorporate different approaches to real estate and operations. This will come in many forms but will, in large part, be aided by technological transitions. While we see change occurring on different levels above the real estate, we remain convinced that real estate itself – i.e. the physical asset – remains attractive. In this respect, as real estate fundamentalists, we continue to favor supply-constrained markets and assets with durable, improvable cash flows. We recognize the strong demand for data centers but we continue to be cautious with our own approach in private markets, opting for public market exposure instead. We remain cautious on the office sector, where structural headwinds persist. However, we see meaningful opportunities in sectors underpinned by strong fundamental demand: residential (where affordability and demographic trends remain supportive), logistics (particularly in reshoring-exposed markets), grocery-anchored retail and certain segments of hospitality. In short, at a time of parabolic tech valuations, we favor hard assets with steady cash flows.

Infrastructure

An asset class at the intersection of secular trends

The convergence of a number of secular trends – primarily digital transformation, the energy transition and demographic change – is redefining infrastructure investing. These developments are creating an energy super cycle and driving capital needs across sectors. This is not an incremental evolution but rather a systemic shift that requires proactive positioning to capture growth while preserving capital.

Digitization and electrification: the energy super cycle

This systemic shift is most visible through the surge in digital and energy infrastructure, where technology and electrification are driving unprecedented capital requirements. Spending on digital infrastructure doubled in 2025, with hyperscaler capex rising to USD 300 billion[1] from USD 154 billion in 2023. This acceleration reflects AI-driven data center expansion, the electrification of transport systems and industry, and the shift towards onshoring strategic supply chains. As a result, US electricity demand is projected to grow by 50% by 2040, requiring the expansion of electricity generation capabilities, major upgrades to power grids and flexible energy storage. These developments are accelerating the need for resilient and scalable infrastructure to support economic growth and technological innovation.

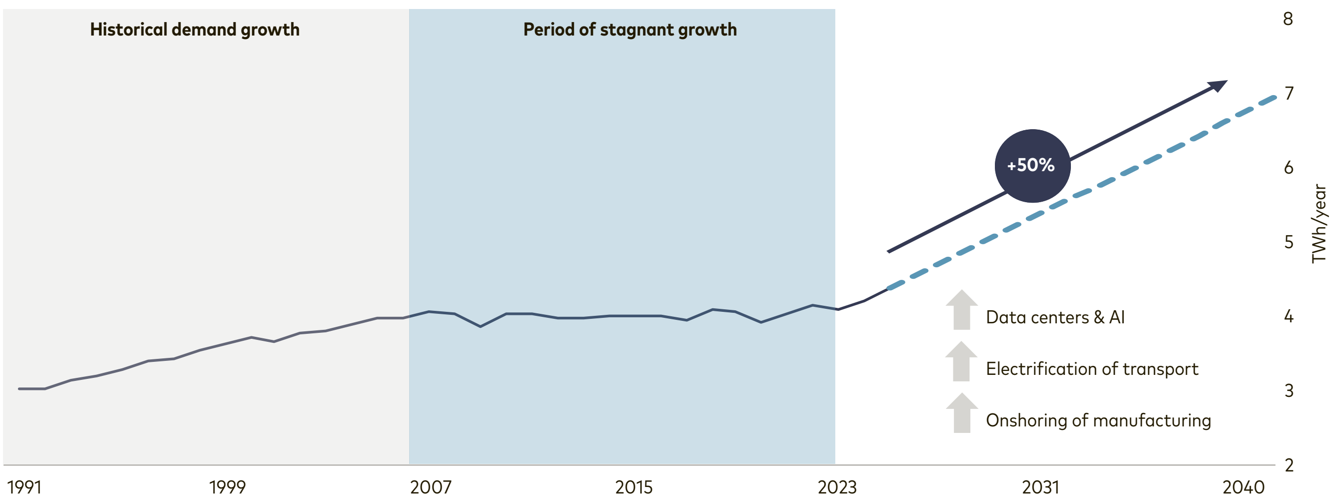
Deglobalization and demographic shifts: new infrastructure needs

Beyond changes in the areas of technology and energy, geopolitical fragmentation and demographic developments are redefining infrastructure priorities. The regionalization of supply chains is accelerating investment in localized logistics, resilient grids and secure data infrastructure, while aging populations and urbanization are driving demand for social infrastructure and new mobility solutions.

Dynamic portfolio construction and diversification

These structural forces are driving the expansion of the investable universe beyond legacy core

US electricity demand is projected to increase by +50% by 2040



Source: Historical data from EIA and electricity demand forecast based ECP materials

[1] The Financial Times, Big Tech lines up over $300bn in AI spending for 2025, February 2025

infrastructure sectors such as toll roads, airports and network utilities, unlocking opportunities for core plus and value add investments that offer higher growth potential and differentiated risk-return profiles. Capturing these opportunities will require a private equity-like investment approach and dynamic portfolio construction, enabling investors to position themselves for long-term growth with downside protection while adapting to evolving market needs.

Growth drivers and deal flow

This broader opportunity set is reinforced by strong investment needs that are expected to exceed USD 100 trillion through 2040[1], meaning that private infrastructure is well positioned for sustained growth and innovation. Fundraising activity is likely to remain resilient as investors continue to prioritize inflation mitigation and stable cash flows. Global private infrastructure assets under management are projected to exceed USD 2 trillion by 2029[2], underscoring their strategic importance in institutional portfolios. In parallel, GP-led secondaries are gaining traction as a viable liquidity tool for GPs, providing LGT Capital Partners with access to trophy assets with greater performance visibility. The segment – estimated at USD 13 billion in 2024[3] – is likely to continue to play a significant role in the overall infrastructure secondary market, driven by over USD 1 trillion in unrealized NAV, capital-intensive business models and a shift towards platform-oriented structures. Despite muted M&A activity, robust development pipelines and secular themes such as digitization and energy constraints continue to create compelling GP-led secondary opportunities. Infrastructure secondaries can provide attractive net returns, enhanced diversification and shorter duration exposure compared to a pure primary portfolio, making secondaries a valuable complement to traditional infrastructure exposure.

Outlook

The outlook for infrastructure is robust and multi-dimensional. The market is being reshaped by digital transformation, energy constraints, decarbonization, supply chain reconfiguration and demographic evolution. Investors who adopt dynamic, private equity-like investment strategies while maintaining a disciplined focus on investing in assets that provide truly essential services will be best positioned to capture the most attractive investment opportunities over the coming years.

[1] McKinsey, Investing in the infrastructure moment, September 2025
[2] McKinsey, Global Private Markets Report 2025
[3] Campbell Lutyens, Infrastructure market report Q4 2024. Total infrastructure secondaries volume in 2024 estimated at USD 17bn, approximately 77% of which GP-led secondaries.

Impact investing

Impact investing in a maturing market

Impact investing is no longer a niche strategy. It is becoming an integral part of mainstream capital markets, with institutional investors increasingly allocating to impact strategies. Global impact assets under management are reported to have surpassed USD 1.5 trillion,[1] with over 110 new funds launched in 2024 alone.[2]

Key trends shaping the market include:

- **Regional differences:** shifting views around sustainability in the US have pushed impact investing activities towards Europe and have led to slower fundraising and a decline in invested capital.[3] This has prompted a shake-out of less effective impact managers. Alongside financial track records, authenticity, data and proof of concept are now even more crucial for continued capital allocation.
- **Focus on climate adaptation and resilience:** while mitigation remains a key area of focus for impact investors, adaptation is gaining prominence due to rising climate risks. In response to climate concerns, investment is flowing into resilient infrastructure, water-efficient technologies and sustainable agriculture, with adaptation seen as a rapidly growing trillion-dollar investable opportunity for 2026 and beyond.[4]
- **Healthcare innovation led by tech and AI:** the healthcare sector continues to attract impact capital, especially in tech-enabled care and health data platforms. AI-driven diagnostics and digital solutions now represent a significant share of healthcare investments (around one-third of healthcare investment in the first half of 2025),[5] reflecting demographic shifts and the need for efficiency and preventative care.

Positioning and outlook

Impact investing remains central to LGT Capital Partners' strategy as we navigate an environment marked by political uncertainty and uneven macro conditions. Looking ahead, we will maintain our view that the allocation of capital to businesses that deliver measurable climate and social outcomes is increasingly essential. Structural changes – such as regulatory pressures, investor demand for transparency and accelerating technology adoption – continue to reinforce the case for impact as a driver of long-term value creation. We will continue to focus on sectors where impact is tangible and scalable, while applying rigorous frameworks to ensure accountability, transparency and credibility across strategies. In addition to the trends outlined above, we expect to pay special attention to the following topics in 2026:

- **Energy transition:** the shift towards renewables, including storage and grid management,

[1] GIIN, What you need to know about impact investing, 2025
[2] Phenix Capital, Impact Fund Universe Report, 2025
[3] PitchBook Data Inc, Geography: Global, The State of Sustainable Investing in the Private Markets. As of December 31, 2024
[4] Boston Consulting Group & Temasek, The Private Equity Opportunity in Climate Adaptation and Resilience, 2025
[5] Silicon Valley Bank, 2025 Healthcare Industry Trends Report, 2025

is accelerating, supported by structural changes in major economies and falling costs for solar modules and batteries, thus unlocking new potential for grid stability and electrification.[1] Clean technology is now a primary driver of growth, with the potential for majority adoption in the coming years.

- **Active engagement:** it will be essential to continue to support managers and companies in pursuing ambitious impact goals, leveraging tools such as impact action plans and ratchets in private debt. We will also focus on industry guidance and expertise in private equity to ensure measurable progress, even after investment exits.
- **Data and measurability:** caution continues to be warranted in sectors where impact is hard to measure or transparency is lacking. Data quality, cost of measurement, exit strategies and compliance with regulations remain key concerns for investors. Efforts to quantify the value of impact will be a priority in the coming year, particularly as certain pilot efforts have already been initiated.

Overall, enduring megatrends and growing investor commitments should ensure that impact investing continues to unlock transformative opportunities in climate, healthcare and inclusive growth, despite political headwinds in certain geographies. With innovation around data and transparency, the credibility of the sector is expected to increase further – especially with regard to its ability to balance the generation of returns with the achievements of societal outcomes.

[1] IEA, Batteries and Secure Energy Transitions, 2025

Emerging and frontier market debt

Waning US exceptionalism

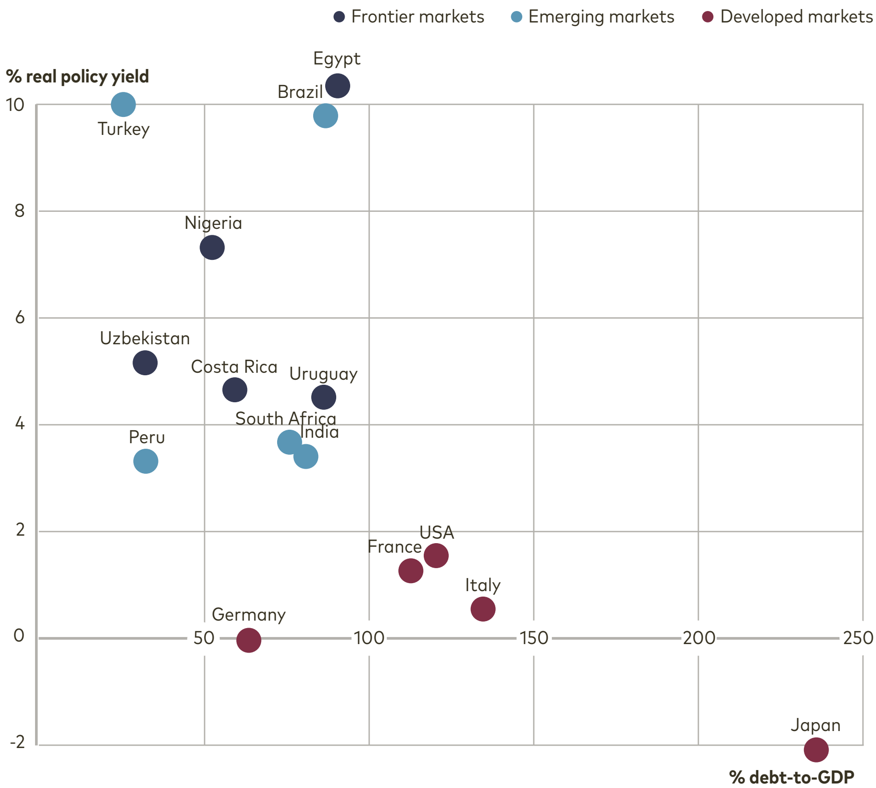
For years, global portfolios have been heavily tilted toward US assets, supported by foreign investors recycling dollars from trade back into US equities and bonds – a dynamic that kept the greenback strong despite a persistent current account deficit. That cycle is, however, beginning to shift. Even without broad selling, a slowdown in foreign purchases could weigh on US assets. The previous environment, characterized by US dollar strength and consistent US outperformance, reduced the perceived need for currency hedging or geographic diversification. That safety net no longer exists to the same extent. Amid heightened market volatility, intensifying geopolitical rivalries and an increasingly fragmented global landscape, diversification has become more important than ever. Investors may benefit from rebalancing their currency and country exposures to avoid overreliance on any single market or region. This shift is creating opportunities for emerging and frontier markets, which may benefit as investors seek diversification and asset classes that are not yet crowded, while at the same time offering value.

Structural improvements meet attractive valuations

Despite their diverse nature, many emerging and frontier markets have demonstrated notable macroeconomic and institutional progress. Improved fiscal discipline, stronger central bank independence and healthier external balances in key economies have contributed to more stable sovereign risk profiles. During the global inflation shock of 2022, for example, many emerging and frontier market central banks raised interest rates earlier than their developed market counterparts, pursuing a more conventional and countercyclical monetary policy, contrary to previous patterns. Additionally, real yields in many emerging and frontier markets remain attractive relative to those in developed markets, offering investors better income potential and a cushion against inflation.

Higher real yields for emerging and frontier markets

Real policy yields, general government gross debt in percent of GDP



Source: IMF, LGT Capital Partners

US dollar weakness as a secular tailwind for emerging and frontier market debt

Another factor reinforcing the improving case for emerging and frontier market debt is the recent weakening of the US dollar. A combination of threats to the institutional independence of the Federal Reserve Bank, expectations of lower US interest rates and increased hedging activity by foreign investors has led to sustained downward pressure on the US dollar. As the dollar weakens, funding costs for emerging and frontier market issuers fall, while yields typically remain relatively high. As the outstanding USD debt for issuers falls in value in relation to their local currency, the debt profile often improves (e.g. debt/GDP) and this can be followed by a positive cycle of credit rating upgrades, which strongly supports hard currency bonds in US dollars. Local currency emerging and frontier market bonds also benefit. A weaker US dollar improves external balances (as described above) and eases debt servicing burdens for emerging and frontier market economies. At the same time, local currencies may remain stable or even appreciate against the greenback, which, in turn, often softens inflation pressure and may result in central banks being able to cut interest rates.

For the LGT Endowment (see How we invest our own money), we strategically invest in all three categories (hard currency, local currency and frontier market debt) and also have the flexibility to adjust our exposure tactically and exploit shifts in relative attractiveness.

Hedge funds

Testing the boundaries of active investing

The year ahead will be shaped by shifting political, economic and technological boundaries, forces that are redirecting capital flows and creating asset price dispersion across global markets. This environment opens up attractive opportunities for a range of hedge fund approaches. Consequently, hedge funds remain a core building block of our multi-asset portfolios and are expected to deliver absolute returns and diversification across both discretionary and systematic strategies.

Navigating blurred political and market lines

Politics has become a market driver in its own right. Across the US, Europe and Asia, fiscal expansion, protectionism and regulatory divergence are affecting corporate profitability, supply chain resilience and cross-border capital allocation. The resulting overlap of public policy and private enterprise creates fertile ground for discretionary managers with the ability to interpret complex policy shifts and position themselves accordingly. For instance, long/short equity managers can harness valuation dispersion as sectors respond differently to policy changes, while credit and event-driven strategies benefit as companies refinance, reshape their balance sheets and pursue policy-driven M&A or restructurings.

Breaking new ground through systematic innovation

Traditional systematic strategies rooted in trend-following and macro models have been applied since the 1970s. Alongside these strategies, AI-based approaches represent a newer and more complex generation: algorithms can learn from vast datasets, adapt quickly and identify multidimensional patterns that may be hard for humans to detect. With a flood of uneven offerings in this emerging space, rigorous manager selection is paramount and it takes seasoned judgment to distinguish the truly capable from the merely fashionable.

Outlook and positioning

We remain constructive on hedge funds heading into 2026. Persistent policy uncertainty, asynchronous growth paths and faster technological diffusion are expected to expand the opportunity set. Discretionary strategies are well placed to navigate policy-driven volatility and idiosyncratic corporate dynamics, while systematic programs should benefit from greater cross-asset dispersion and rising structural alpha potential.

A diversified allocation that combines best-of-breed AI managers with established systematic programs and high-conviction discretionary strategies can improve the odds of attractive, risk-adjusted absolute returns with low correlation to broad markets. Against this backdrop, we maintain a clear preference for market-neutral strategies, which deliver the diversification, low beta and dispersion-harvesting benefits highlighted at the beginning.

As economics, politics and technology increasingly intersect, the agility and innovation of hedge funds make them an essential component of a resilient, forward-looking portfolio.

AI/machine learning for systematic hedge funds: from regression to deep learning

Machine learning offers a rich toolkit for systematic trading strategies, spanning supervised and unsupervised approaches. Supervised methods, most notably regression, were adopted decades ago to improve forecast accuracy by learning explicit relationships between inputs and targets. For example, models can estimate FX moves from interest rate differentials, inflation trends and capital flows.

Unsupervised learning widens the search for structure. Advances in computing and the explosion of financial data have enabled techniques, including deep learning, that uncover patterns in unlabeled data. Rather than hunting for predefined price dependencies, these models sift through diverse inputs to detect latent relationships and market regimes.

Machine learning has been a reliable engine for systematic strategy design for many years, and ongoing progress in data, computing and model architecture are likely to only make these methods more sophisticated and effective in the future.

Input
e.g. historical share prices

Machine learning looks for:
- Relationships
- Patterns
- Dependencies
- Hidden structures

Output
e.g. share price predictions

Source: LGT Capital Partners, Datasolut.com

Insurance-linked strategies

Investment market reaches new heights

2025 was a pivotal year for insurance-linked investments that was marked by significant catastrophe events and shifting market dynamics. It began with the Los Angeles wildfires – the most destructive fire event in US history. Over 23,000 hectares of land burned and more than 18,000 buildings were destroyed, with insured losses approaching USD 40 billion. The aftermath of these wildfires prompted a reassessment of risk models and premium structures and spurred subrogation, with insurers pursuing recoveries from liable third parties. This development highlights the growing role that capital markets play in disaster recovery and the need for reform and resilience in the insurance system.

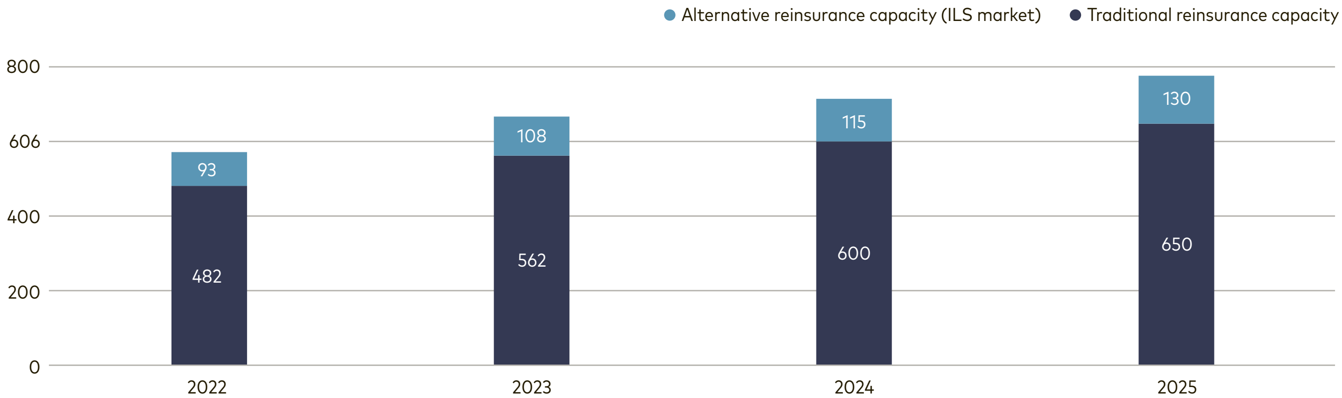
In contrast to the devastation witnessed on the US West Coast, the North Atlantic hurricane season in 2025 was unusually quiet. By late October 2025, only 12 named storms and 3 major hurricanes had formed – well below forecasts. Persistent wind shear, dry Saharan air and dominant high-pressure systems combined to suppress storm formation during the most active weeks of the season. While forecasters remain cautious, noting that late-season activity is always a possibility, this relative calm has provided welcome relief to reinsurers and investors alike.

Nowhere was the theme of breaching boundaries more evident than in the growth of the ILS market itself: since 2022, it has increased in size from USD 93 billion to over USD 130 billion[1], as capital flows tested the traditional limits of the sector and ultimately fueled its expansion. Robust inflows, especially into catastrophe bonds, drove record issuance volumes, propelled by strong demand and the diversification benefits of ILS. The chart below shows the growth of the catastrophe reinsurance market in recent years, highlighting the increasing importance of the alternative (ILS) market segment.

Outlook remains attractive despite softer insurance rates

This influx of capital reduced investor returns, with property catastrophe rates softening by

Global reinsurance capacity (USD bn)[1]



[1] Estimated reinsurance capacity depicts the total available capacity for catastrophe reinsurance
Source: LGT ILS Partners, Aon Securities, Artemis. Data as of 2 June 2025

5-10% in the first half of 2025. Nevertheless, rates remain adequate and the overall return profile for insurance-linked investments has remained attractive. The industry's resilience is further supported by disciplined portfolio management, diversification and long-term partnerships.

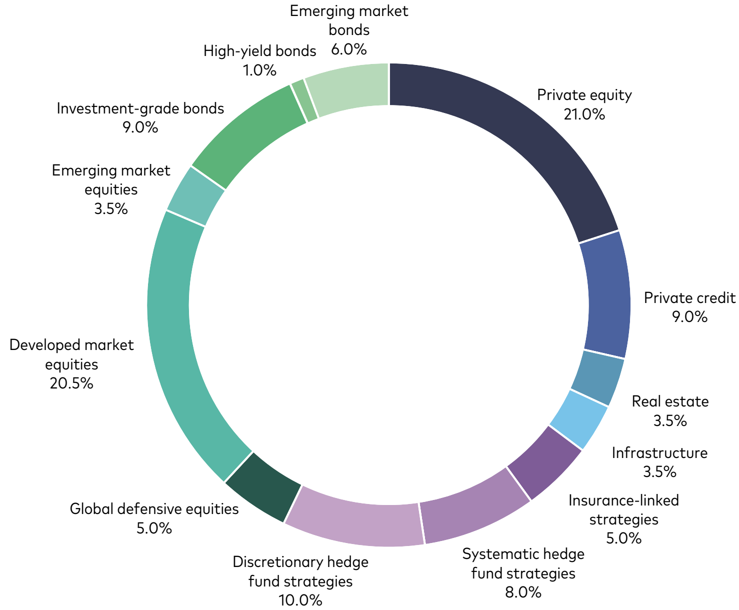
Looking to 2026 and beyond, the sector once again faces the challenge of shifting boundaries: while the general outlook remains constructive despite further expected rate softening, competition among capital allocators is expected to intensify. Regulatory developments, including the review of catastrophe bond eligibility, may further influence investor sentiment, though demand is likely to remain strong. And increased demand driven by inflation and construction activity should further support market stability. In short, ILS continued to provide compelling investment opportunities and the sector's resilience and ability to deliver attractive, uncorrelated returns should sustain momentum into 2026.

How we invest our own money

LGT Capital Partners has been managing and investing a combined portfolio of traditional and alternative investments, the LGT Endowment, for 27 years. Today, this strategy has USD 23 billion in assets under management,[1] with over USD 1 billion of capital from LGT's sole shareholder and substantial sums of capital from key investment professionals at LGT Capital Partners. This drives the strong alignment of interests between the firm's owner, our investment team and our investors.

The LGT Endowment's investment mandate is to achieve sustainable long-term asset growth with moderate volatility. To this end, we developed our proprietary strategic asset allocation methodology. Its core components – scenario planning and robust diversification – help us to build an investment portfolio for an uncertain future and changing market environments with the ambition of generating attractive risk-adjusted returns over the long term.

Crossing boundaries – preparing investment portfolios for 2026 and beyond
Our latest adjustments to the strategic asset allocation include a shift from high-yield bonds to public equities outside the US, and the strengthening of our allocation in real assets, namely in inflation-linked bonds and infrastructure investments. As before, the growth tilt of the portfolio is complemented with alternative diversification strategies, such as hedge funds and a dynamic protection program. In addition, our foreign currency hedging strategy is geared towards reducing overall portfolio risk.



Private markets
The owner-manager structure of private equity holdings, together with long investment horizons, allows for active value creation over a full cycle.
In private credit, contracts are individually negotiated in close consultation with counterparties.

Carefully selected infrastructure and real estate deals offer the potential for inflation-resilient income yield and capital growth.

Hedge funds and liquid alternatives
Alternative investment strategies are a source of uncorrelated returns found in the systematic harvesting of alternative risk premia or the generation of alpha from high-quality discretionary managers.

Insurance-linked strategies also focus on generating returns that are independent of the overall market direction. The dynamic protection strategy is specifically designed to cushion market drawdowns in the portfolio.

Specialized equities and fixed income
When selecting publicly traded securities for our multi-asset portfolios and individual mandates, we maintain a strong focus on sustainability and quality. Value-add through active management is another cornerstone of our public market strategies.

In addition, we participate in attractive niches such as global inflation-linked bonds or emerging and frontier market debt in local currencies.

[1] Assets include shareholder, staff and client investments. LGT Endowmnet is not available for investment by US investors.
The quotas above represent the long-term, strategic asset allocation. The actual, invested asset allocation can deviate significantly from these numbers for tactical and portfolio management reasons. Please note that the portfolio has 5% leverage and that the 2% allocation to the dynamic protection strategy is an overlay strategy and is thus not added to the overall sum of assets allocated. LGT Endowmnet is not available for investment by US investors
Source: LGT Capital Partners

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