XPS Group

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Investment Briefing

Private market valuations: Understanding the true value

Valuations in private markets are inherently complex due to illiquidity, limited price transparency and heterogeneous assets. Unlike public markets, where prices are observable, private valuations rely on models and assumptions, creating discretion and information asymmetry. These factors complicate performance measurement and benchmarking for investors.

This paper highlights the barriers inherent in these valuations and how these can be overcome to understand the true value of the asset.

In 2025, the FCA shared its findings from its review of valuation processes for private market assets stating that "investors need fair and appropriate valuations to understand the performance of their investments and make informed decisions, such as on asset allocation and manager selection". Late last year, the Bank of England also launched a system-wide exploratory scenario (SWES) to evaluate how private market assets cope under stress scenarios. The significant focus from these institutions endorses the need for investors to really understand the assets they are holding and the value placed on them in all potential scenarios. For example, DB schemes need to understand the true value of assets they hold to understand their funding position. For DC schemes, there is also a question of member fairness.

Across Private Debt, Equity, Infrastructure, and Real Estate, methodologies vary but share common challenges: reliance on subjective inputs, lagged responsiveness to market conditions, and inconsistent standards. While fair value approaches improve transparency, they remain judgement-driven and often lag real-time market dynamics. We provide a summary of the issues specific to each asset class, along with key actions that can be taken as a consequence.

Highlights

- Private market valuations are often inconsistent and not directly comparable across assets, funds, or managers. Reported net asset values (NAVs) may not reflect fair value, as valuations can vary materially depending on methodology, assumptions and timing. This limits their usefulness for comparison, portfolio construction and decision-making.
- These inconsistencies are most apparent when assets are traded. An apparent discount or premium to NAV may not represent a true discount or premium to economic fair value.
- Valuation accuracy is equally important when assets continue to be held. Understated valuations can distort funding levels, risk assessments, and asset allocation. Overstated values, particularly when combined with return assumptions, may lead investors to overestimate future portfolio performance.
- Valuation quality also affects investors' abilities to assess fund prospects. Where reported values diverge from economic reality, it becomes harder to judge performance trends or determine whether current conditions present an appropriate opportunity to hold, reduce, or exit an investment.
- Investors must therefore actively challenge valuation methodologies and support robust fair-value frameworks to ensure better understanding of the true value.

Private Debt

The surge in interest rates has significantly influenced the valuation of Private Debt, prompting a shift toward fair value as the preferred benchmark. Fair value offers a more accurate reflection of real-time market conditions, credit quality and risk, though it requires professional judgement and access to reliable market data.

This transition has made traditional methods such as **cost basis** and **amortised cost** to become increasingly outdated. While cost basis provides simplicity by valuing at the historical purchase prices, it fails to capture current market realities. Similarly, amortised cost, which values assuming market conditions (such as interest rates) are the same as when the asset was purchased, can offer predictability but ignores changing market conditions, making it less useful for investors assessing value against other assets.

Conservative valuations can be equally misleading, as some managers deliberately undervalue assets to signal prudence, distorting performance metrics and masking a portfolio's true health. In response, best practices in fair value are evolving. As regulatory momentum is building, global authorities are pushing for greater transparency and consistency, as reflected in the updated IPEV (International Private Equity and Venture Capital Valuation) guidelines that now include specific provisions for Private Debt and acknowledge the sector's growing complexity.

Take away: Fair value is preferred for Private Debt because it provides an up-to-date view of market conditions. This method reflects evolving credit risks, improves comparability, and supports more reliable investor decision-making.

Private Equity

In Private Equity, investments are not publicly traded, so there is no observable market price to reference. Determining the actual value requires a structured assessment of how the underlying business is performing. Valuation in Private Equity is therefore driven by a detailed evaluation of a company's financial and operational fundamentals, using informed assumptions and data to estimate its fair value. Most managers therefore use a blend of three core approaches: publicly traded comparables, transaction comparables, and discounted cash flow models.

Investors often emphasise alpha generation and diversification when assessing Private Equity funds, but a frequently overlooked benefit is reduced volatility: during market turbulence, managers typically apply conservative valuation practices and adjust values cautiously in both downturns and upswings. That conservatism is amplified by reporting lags, typically 45 to 60 days after quarter-end, which can delay recognition of material market events. The smoothed returns associated with illiquid investments thus arise not only from quarterly reporting but also from the valuation methodologies themselves.

Take away: Private Equity valuations rely on detailed assessments of business performance and are updated more cautiously than public markets, resulting in reduced short-term volatility and a stronger reliance on long-term results to indicate underlying value.

Infrastructure

Despite regulatory guidance, valuation practices in infrastructure remain opaque and heavily dependent on investor discretion, with forecasting of cash flows, estimation of terminal values, and calibration of discount rates varying widely across market participants. Market responsiveness is limited, so few investors adjust valuations during periods of stress, producing smoothing that masks true volatility and delays recognition of material deterioration. This was an issue starkly illustrated by Thames Water, whose financial distress was neither sudden nor unforeseeable. However, this was not reflected in investor valuations, exposing weaknesses in risk modelling and a tendency to underweight real market dynamics when setting discount rates.

To address these challenges, the industry is calling for stronger governance and more consistent valuation standards, including clearer rules for discount rate determination, rigorous checks on management inputs, and improved mechanisms for incorporating market changes.

Take away: Since cash flow projections require high accuracy, the discount rate for infrastructure assets should reflect asset-specific factors, typically expressed through risk premiums added to the standard market-based rate.

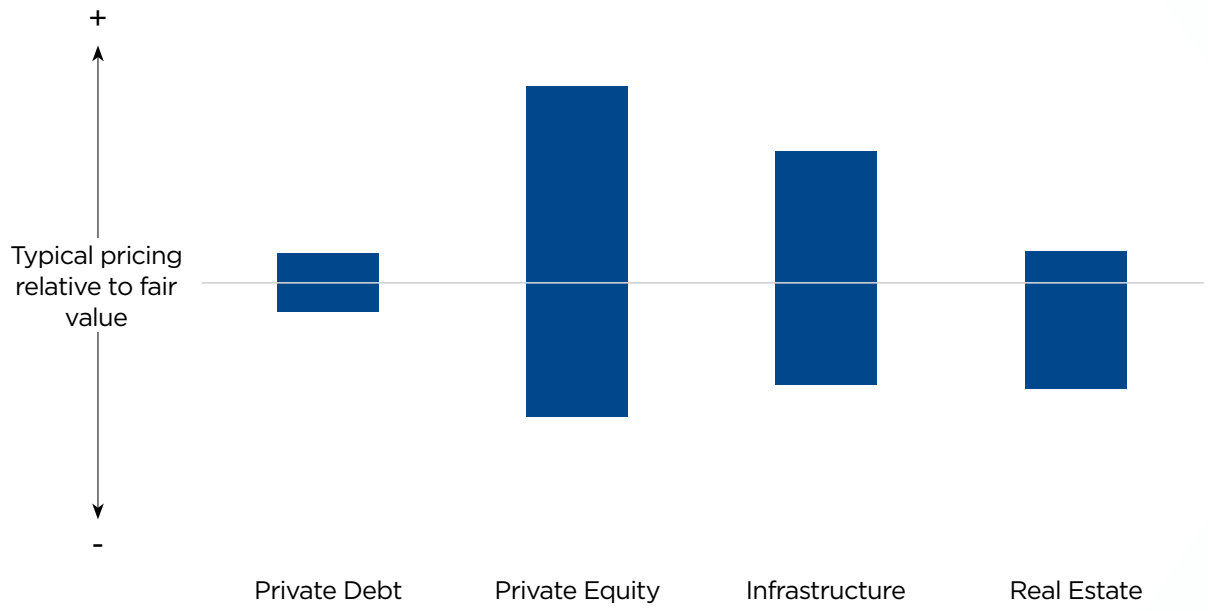
Real Estate

Valuation in Real Estate also presents distinct challenges due to the illiquid nature of assets and the absence of frequent market transactions. Real Estate valuation incorporates elements of the income, cost, and sales comparison approaches that are used to value listed property. Real Estate managers often apply more than one valuation approach to arrive at a price at which they may be willing to buy or sell a property. Value-add and opportunistic Real Estate returns primarily involve capital appreciation by increasing value through the upgrade of a property's economic use or creation of new capacity.

Appraisals often rely on discounted cash flow models and comparable sales, but these approaches are highly sensitive to assumptions about rental growth, occupancy rates, and yields. Quarterly or semi-annual appraisals also lag fast-moving markets, smoothing volatility and delaying recognition of deterioration; limited transactions and liquidity pressures have even produced redemption queues at some funds.

Take away: In many sectors, falling values are mainly due to rising yields rather than changes in how the assets are actually performing. This means that most core and core-plus assets are highly sensitive to movements in yields, which is a key risk for valuations.

Illustrative positioning of private assets relative to fair value



Source: XPS estimations. For illustration purposes only.

The chart illustrates the relative positioning of private asset classes around an estimated fair-value benchmark, highlighting differences in valuation behaviour and uncertainty.

For **Private Debt,** changes in interest rates and credit conditions since loans were originated can cause accounting values to diverge from underlying economic value, particularly where amortised cost is used. Most loans are floating rate, meaning higher interest rates do not materially widen the gap between amortised cost and fair value, and in cases of spread, tightening may even imply modest undervaluation. Fixed rate loans, by contrast, are more likely to be overvalued, as amortised cost accounting does not fully reflect the capital value reduction from higher prevailing interest rates.

Private Equity displays the widest range around fair value, illustrating the greater uncertainty in valuations driven by long investment horizons, reliance on assumptions, and dependence on future exits.

Infrastructure sits closer to fair value with moderate dispersion, consistent with stable cash flows but conservative valuation practices.

Whereas we see **Real Estate** typically undervalued, reflecting higher interest rates which have pushed up investor return requirements and reduced property values, as well as delays in appraisals adjusting to market conditions.

Case studies:

The following case studies highlight the challenges of valuation practices. We have summarised these, along with some ideas of best practice for schemes in their 'low dependency' phase - noting that adopting this best practice can mitigate risks but these can never be fully removed.

Australian DC: Stale valuation risk
Early in the COVID-19 pandemic, an Australian defined contribution default strategy revealed significant stale valuation risk. Listed equities repriced daily amid volatility, but private exposures, such as unlisted infrastructure, were valued quarterly. Daily unit pricing for member transactions thus relied on outdated inputs, creating unfair outcomes: retirees exiting received inflated prices, while contributors bought at overvalued levels.

Lesson: DC schemes need robust valuation policies, including triggers to detect stale pricing and mitigants to protect member fairness. As UK DC allocations to private markets grow (especially venture capital with annual valuations), governance must evolve. Timely, transparent, and responsive frameworks are essential to uphold member equity.

Real Estate valuations can differ
At the end of last year, a UK property fund acquisition was delayed due to a c.16% discrepancy between buyer and seller valuations. A third independent valuer was appointed, and their assessment fell between the two, closer to the buyer's figure, enabling the transaction to proceed and the assets to be absorbed into the acquiring vehicle.

Lesson: Real asset valuation is inherently subjective. Independent oversight and third-party arbitration can facilitate fair outcomes when methodological differences produce material gaps.

The absence of a market price shifts risk from volatility to valuation credibility. In private markets, the real challenge isn't just finding value, it's understanding it.



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Conclusion

Valuing private market assets remains complex, shaped by illiquidity, limited transparency, and methodologies that rely heavily on judgment rather than observable prices. Fair value has become the preferred standard across Private Debt, Equity, Infrastructure, and Real Estate, yet it still reflects assumptions that can lag market reality. For investors, the reported number is rarely the whole story, it is an estimate, not a traded price. Across asset classes, the lesson is consistent: interrogate the inputs.

- **Private Debt** now demands fair-value approaches that reflect current credit risk rather than outdated cost metrics.
- **Private Equity** valuations move cautiously, making long-term fundamentals more meaningful than short-term marks.
- **Infrastructure** requires rigorous governance to ensure discount rates and cash-flow projections genuinely reflect risk.
- **Real Estate** remains highly sensitive to yield movements, with much of recent repricing driven by market shifts rather than weakening asset performance.

Find out more

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