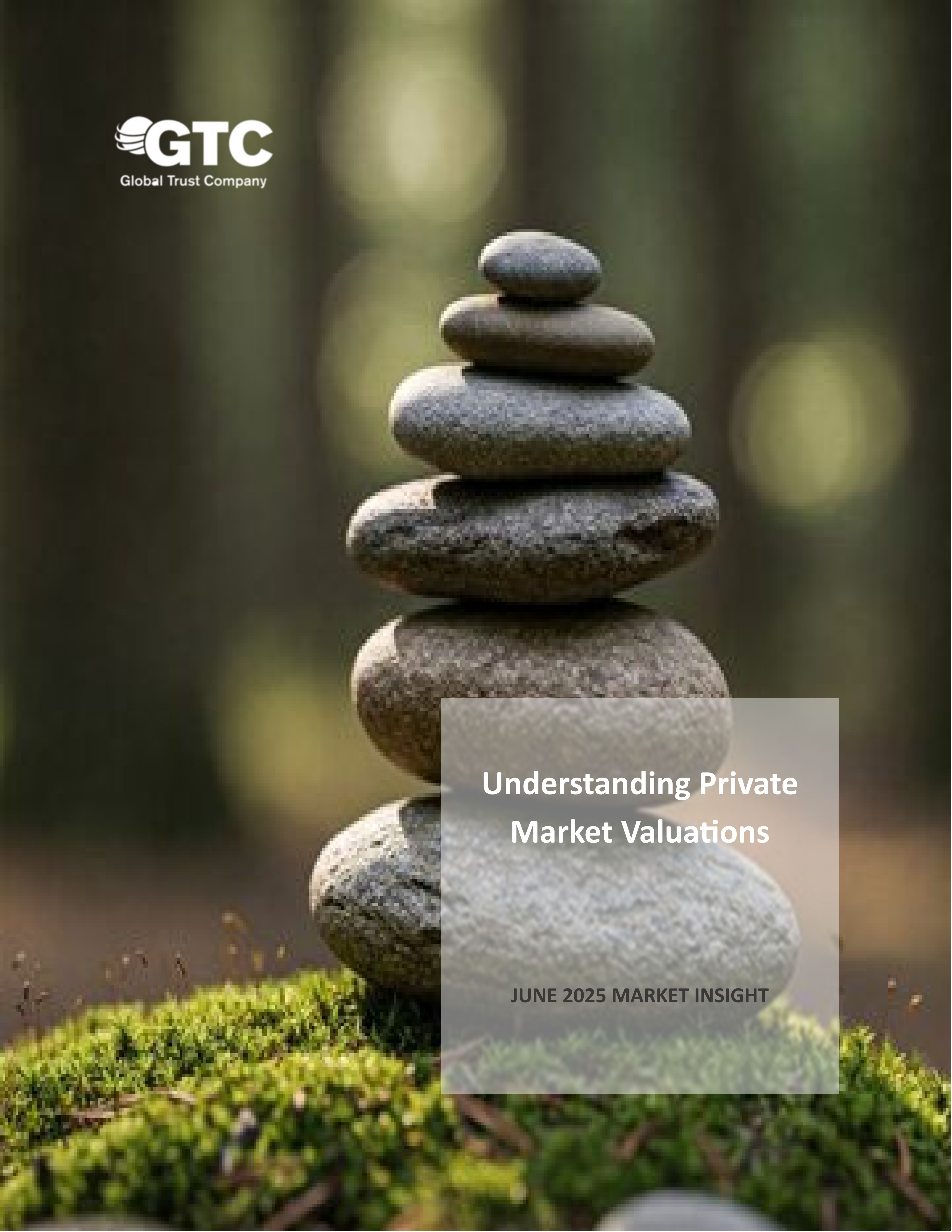

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Understanding Private Market Valuations

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Private markets have long been an essential element of institutional portfolios, offering the promise of superior returns and enhanced diversification compared to public securities. Particularly for investors with long time horizons and the ability to tolerate illiquidity, private assets represent a compelling opportunity[1]. Beyond the familiar value propositions of alpha generation and access to unique investments, a critical but often underappreciated feature of private markets lies in how their valuations are determined. The nuances of private asset valuation not only shape the perceived performance of these investments but also influence their role in portfolio construction, volatility management, and regulatory oversight.

The Distinct Nature of Private Market Valuations

Unlike public equities, which are priced daily through continuous trading and influenced by both fundamental data and investor sentiment, private market assets are inherently illiquid and do not benefit from readily observable prices. As such, they rely on estimation techniques rooted in fundamental analysis. This reliance on long-term, fundamentally driven inputs means that private market valuations tend to avoid the short-term volatility that characterizes public markets. Rather than adjusting to headlines or momentum shifts, private managers attempt to assess the intrinsic value of an asset, often taking a measured and deliberate approach. The result is that private valuations are inherently less reactive, making them more stable through turbulent markets, albeit at the cost of less frequent updating.

Methods and Process of Valuing Private Assets

The valuation of private market assets follows a methodical process that incorporates multiple approaches to estimate fair value in the absence of liquid market pricing. Most private equity and private market managers rely on a combination of four main valuation techniques: public market comparisons, transaction comparisons, asset-based methodologies, and discounted cash flow (DCF) models.

Public market comparisons use valuation multiples derived from similar publicly traded companies—such as enterprise value-to-EBITDA or price-to-earnings ratios—and apply them to the earnings or cash flows of the private company. This approach offers a benchmark based on observable data but can be limited by differences in scale, liquidity, and business focus between public and private firms.

Transaction comparisons analyze the valuation multiples of recent transactions involving comparable private companies. These may include mergers, acquisitions, or secondary sales, and provide a real-world gauge of investor sentiment and pricing in similar contexts. However,

[1] March 2025 Market Insight, *Beyond Traditional Assets: Modernizing Defined Contribution Plans*

transaction data can be sparse and may quickly become outdated, especially in rapidly evolving markets.

Asset-based methodologies determine a private asset's value by assessing the fair market value of its assets minus liabilities. It is commonly used for asset-heavy businesses like real estate or infrastructure, where value is tied to physical holdings rather than earnings. This method is particularly useful when income is volatile or unreliable, and typically involves third-party appraisals to value illiquid assets. While less common in growth-focused private equity, it remains a key tool for valuing tangible asset-driven investments.

Discounted cash flow models, meanwhile, project the future earnings or cash flows of a business and discount them back to present value using an appropriate discount rate. This approach is forward-looking and highly dependent on assumptions around growth rates, margins, capital expenditures, and risk premiums.

In practice, most private market managers use a blend of these four methodologies, combining historical precedent, market-based valuation signals, and company-specific projections to arrive at a valuation. This process is typically overseen by an internal valuation committee, subjected to annual audits, and often reviewed by independent third parties. In semi-liquid funds, valuations may be updated monthly, while traditional closed-end vehicles usually follow quarterly cycles. These controls are designed to enhance consistency, reduce subjectivity, and meet the requirements of frameworks such as US GAAP or IFRS 13.

The Uniqueness of Valuing Daily Valued Private Funds

As private markets evolve, a new frontier is emerging in the form of daily valued private market funds[2] These vehicles—often structured as interval funds, non-traded REITs, or open-end private credit and real asset funds—aim to combine the return potential of private investments with a degree of liquidity more typical of public markets. However, providing daily pricing for inherently illiquid assets presents a significant challenge, and has necessitated the development of unique valuation frameworks that balance transparency, fairness, and operational feasibility.

At the heart of the challenge is reconciling the long-dated, fundamental nature of private asset valuations with the daily liquidity demands of a mutual fund-like vehicle. Traditional private equity or real estate funds report valuations quarterly, reflecting periodic assessments and internal modeling. Daily valued funds, by contrast, must generate a Net Asset Value (NAV) every business day, often in the absence of new market events or transactional data to justify material price changes.

[2] June 2025 Market Insight, *The Evolution of Evergreen Funds: Evergreen Funds: Unlocking Private Markets for a New Generation of Investors*

To address this, daily valued private funds typically rely on a tiered valuation infrastructure. The majority of the fund's NAV is anchored to the most recent appraised values of the underlying assets—values that themselves are derived using conventional private market techniques, such as discounted cash flow models, public and private market comparisons, asset-based methodologies, and recent transaction data. These base values are usually updated monthly or quarterly through a rigorous process involving third-party valuation agents and internal committees.

Between full reappraisals, interim daily NAVs are derived using a NAV-stabilization framework, which applies adjustments based on observable market indicators, sector-specific data, macroeconomic trends, or pricing inputs from comparable public market proxies. For example, in a private credit fund, managers may adjust NAVs for interest rate movements, spread changes in comparable syndicated loans, or changes in credit default swap (CDS) indices. In real estate strategies, managers may consider public REIT pricing movements or sector-specific economic indicators to calibrate daily NAV adjustments.

In many cases, valuation bands or collars are used to limit daily price movements unless justified by material events. This mitigates the risk of overstating volatility while ensuring that the fund's pricing remains within a reasonable range of economic reality. The use of such mechanisms reflects a careful balance: maintaining investor confidence in the fund's fairness and responsiveness, without allowing temporary sentiment-driven dislocations to unduly influence prices of long-term, illiquid holdings.

Operationally, daily valued funds often depend on a hybrid of in-house oversight and third-party valuation agents, with many appointing independent pricing committees and audit firms to validate their models and assumptions on a regular basis. The process is further supported by technology-driven platforms that automate data aggregation, apply rule-based adjustments, and facilitate daily NAV calculation in a controlled and repeatable manner.

Despite these innovations, the structure is not without risk. Daily liquidity can create tension in stressed markets, especially if redemption pressure accelerates and the underlying assets are not easily sold to meet outflows. For this reason, many such funds include gating provisions, redemption limits, or soft lockups to align liquidity with the pace at which the portfolio can be prudently valued and monetized. This in not unlike what current plan sponsors experience with investments in long-held stable value funds, which at times offer limited liquidity through a "put" provision for the benefit of participants.

In short, valuing daily private market funds requires an entirely new operational model—one that blends traditional private asset valuation techniques with dynamic, forward-looking adjustments and prudent liquidity controls. For allocators, understanding this process is crucial, not only to interpret daily NAVs accurately but to assess whether these new hybrid vehicles deliver on their promise of private market access with public-like convenience.

A Framework for Providing Daily Valuations on Private Assets

- Latest monthly or quarterly NAV establishes baseline price
- Incorporate daily capital calls, distributions, fees, and expenses
- For publicly traded holdings, update valuations based on daily market prices
- For private and semi-liquid holdings, implement a daily valuation model that allows flexibility to leverage independent appraisals, multi-factor pricing, and cash flow models
- Blended valuation of last known NAV, daily cash flows, and applicable market adjustments

Smoother Returns: A byproduct of Methodology and Timing

The perception that private markets offer reduced volatility is not merely a product of less frequent pricing, though that does play a role. Valuation cycles—typically quarterly for traditional closed-end funds and monthly for semi-liquid structures—introduce a time lag that delays the reflection of market events. For example, during the COVID-19 pandemic, public markets rapidly adjusted in March 2020, but private equity valuations did not fully reflect the downturn until later in the year, illustrating how procedural and methodological factors create inertia in price discovery.

This inertia can provide advantages in portfolio construction. By muting short-term fluctuations, private investments can help dampen overall volatility. However, this smoothing effect does come with a trade-off. While it tempers drawdowns, it also dampens the upside during recovery periods, as private market values tend to lag behind public market rebounds. But when viewed over a full cycle, private equity has historically delivered competitive returns with less dramatic swings—qualities that align with the long-term objectives of most investors.

Are Private Valuations Reliable?

Despite the advantages of reduced volatility and long-term focus, private market valuations are not without scrutiny. Critics point to their lack of transparency and subjectivity. Indeed, private valuations can differ materially based on assumptions made about interest rates, financial projections, or comparable companies. This subjectivity makes it essential for investors to conduct thorough due diligence, ensuring that valuation practices are consistent, reasonable, and in compliance with rigorous standards.

Encouragingly, observed data supports the robustness of private valuations. MSCI's study of private real estate valuations found that, on average, sales prices exceeded reported market values, suggesting that valuations are often conservative. Similarly, private market managers often highlight uplifts realized at exit as further evidence that their valuation methodologies reflect a grounded, prudent approach. Nevertheless, discrepancies remain a concern. Such divergences highlight the importance of manager selection, transparency, and the need to understand not just the performance but the underlying process by which valuations are determined.

Conclusion

Private market valuations are fundamentally different from their public counterparts, relying on judgment-driven methodologies that reflect long-term intrinsic value rather than short-term market sentiment. This difference underpins many of the perceived advantages of private markets, including smoother returns, stronger downside protection, and compelling long-term performance. However, these same characteristics demand greater scrutiny and sophistication from investors.

Ultimately, for those able to look beyond full daily liquidity and withstand interim opacity, private markets offer a powerful means of portfolio enhancement. But to harness their full potential, investors must approach valuation with the same rigor they bring to return expectations—understanding not only how value is created, but also how it is measured and reported along the way.

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