

Swiss Finance Institute Roundups

Private Markets at a Crossroads— Growth, Frictions, and What Comes Next

Editorial



Private markets have expanded rapidly and now play a major role in global finance. The interviews in this roundtable of experts show how these markets are evolving as liquidity tightens, valuations adjust slowly, and regulation increases. Experts agree that private markets no longer deliver automatic outperformance and that their risks are often underestimated. Still, they remain useful for investors willing to accept long holding periods and limited transparency. Success will depend less on financial engineering and more on careful analysis, fair alignment between managers and investors, and realistic expectations about returns in a more mature and competitive environment.

We wish you an informative and thought-provoking read.

A handwritten signature in blue ink, appearing to read 'F. Degeorge', with a horizontal line underneath.

Prof. François Degeorge
Managing Director

Contributors

**Pascal Böni**

Pascal Böni is the Chief Executive Officer and Chairman of the Board of Remaco Advisory Services, where he advises entrepreneurs and investors on strategic financial decisions. He is also Professor of Finance and Private Markets at Tilburg University, where he directs the Tilburg Institute for Private Markets, and Academic Director of the MBA in Finance and Master in Finance programs at the University of Basel. He holds a PhD in Finance from Tilburg University.

**Stefan Pomberger**

Stefan Pomberger is the Co-founder, Managing Director, and Head of cosmofunding, the digital financing platform launched by Vontobel to connect investors and issuers. He also serves on the boards of STANA Holding, a private family office, and the Swiss Marketplace Lending Association. He holds a PhD in Finance from Johannes Kepler University Linz.

**Rüdiger Fahlenbrach**

Rüdiger Fahlenbrach is an SFI Senior Chair and Professor of Finance at EPFL, the Swiss Federal Institute of Technology in Lausanne. His research focuses on corporate finance, governance, and the role of private equity and venture capital in capital markets. He is a research member of the European Corporate Governance Institute and the Chairman of the Scientific Advisory Board of the Halle Institute for Economic Research. He holds a PhD in Finance from the University of Pennsylvania.

**Vesa Pursiainen**

Vesa Pursiainen is an SFI Faculty Member and Associate Professor of Finance at the University of St.Gallen. His research covers private equity, behavioral finance, entrepreneurial and household finance, and corporate finance. Before joining St.Gallen, he was a researcher at the University of Zurich and at Imperial College London, and worked in the financial industry at Oaktree Capital Management and J.P. Morgan. He holds a PhD in Finance from the University of Hong Kong.

**Andreas Nicoli**

Andreas Nicoli is the Head of Private Equity at Zürcher Kantonalbank, where he played a key role in establishing the Swisscanto Switzerland Growth Fund and the Swisscanto World Carbon Solutions Fund, both targeted at qualified investors, with access to unlisted growth and buyout companies in the expansion phase. Alongside his professional banking activities, he co-founded Focuswater, Switzerland's first vitamin water company, where he served as Chief Financial Officer and a Board Member until its acquisition by Rivella. He holds a Master of Arts in Economics and Business Administration from the University of Zurich and is a CFA charterholder.

Mapping the Landscape: Size, Scope, and Misperceptions

Where do private markets begin and end?

► **Rüdiger Fahlenbrach:** The boundaries between private and public markets are becoming increasingly blurred. Private markets typically encompass any investment strategy outside of the publicly traded exchanges—for example, private equity, private credit, venture capital, real estate, and infrastructure. Public equities, liquid fixed income, and exchange-traded instruments are excluded. Hybrid structures—like business development companies in private credit or semi-liquid private equity funds for retail investors—however, blur the picture. This creates a challenge when allocating investments, since the size, risk, and role of private markets in a portfolio vary widely depending on what is included. For policymakers, too, blurred definitions make it harder to assess risks and to apply consistent regulation.

What is the standard vehicle in a private market, and how do capital and fees move through it?

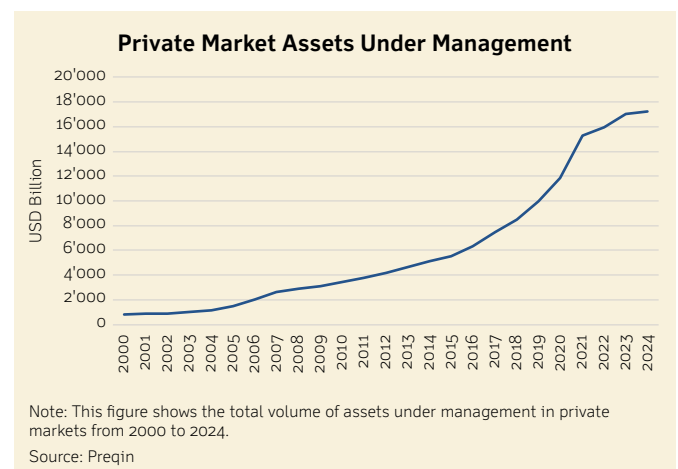
► **Vesa Pursiainen:** The standard vehicle in private markets is the classic leveraged buyout (LBO) fund, a closed-end fund with a limited lifespan. The investors, known as limited partners (LPs), commit capital at the start. The fund manager and decision-maker, known as the general partner (GP), then draws down this capital over time to finance acquisitions. Once raised, the pool of capital is fixed, and investors cannot freely enter or exit. Capital flows through several phases. First comes fundraising, when the GP secures commitments from the LPs. Second is the deployment phase, during which the LPs meet capital calls, as the GP invests in portfolio companies. The management phase is third, during which the GP works closely with the companies to improve their operations and performance. Fourth, value is realized at exit, for example through initial public offerings (IPOs) or sales to other funds or strategic buyers. Finally, at liquidation, the proceeds are distributed back to the LPs.

► **Andreas Nicoli:** Fees and incentives are layered onto the fund structure. Management fees are charged on the committed capital during the fundraising, deployment, and management phases, and on the invested capital during the harvesting phase. These fees cover operational, due diligence, and portfolio management costs, but they are not meant to be the primary source of profit for the GP. Alignment with LPs comes mainly from carried interest, the GP's share of the fund's profits once its returns exceed a certain amount, known as the

hurdle rate. This setup rewards successful exits and strong performance, though it can also create tensions if GPs raise larger funds than they can deploy, or invest in weaker opportunities just to avoid leaving capital idle.

How large are private markets, and how do they compare to public ones?

► **Pascal Böni:** Private markets have grown quickly over the past 20 years, but they remain much smaller than public markets. According to Preqin, total assets under management (AUM) are just above USD 17 trillion. Of this, private equity is the largest component, at USD 11 trillion, followed by real estate assets, just above USD 2 trillion, and private credit, slightly below USD 2 trillion. The industry remains geographically concentrated, with more than half of these assets in North America and just over 20 percent each in Europe and Asia. Despite this growth, recent fundraising trends have been less buoyant. Global private equity fundraising has declined for three consecutive years, falling from USD 1.4 trillion in 2021 to slightly under USD 1 trillion in 2024. However, "dry powder"—that is, committed capital not yet deployed—remains stable at 25 to 30 percent of AUM, suggesting that capital continues to be deployed steadily.

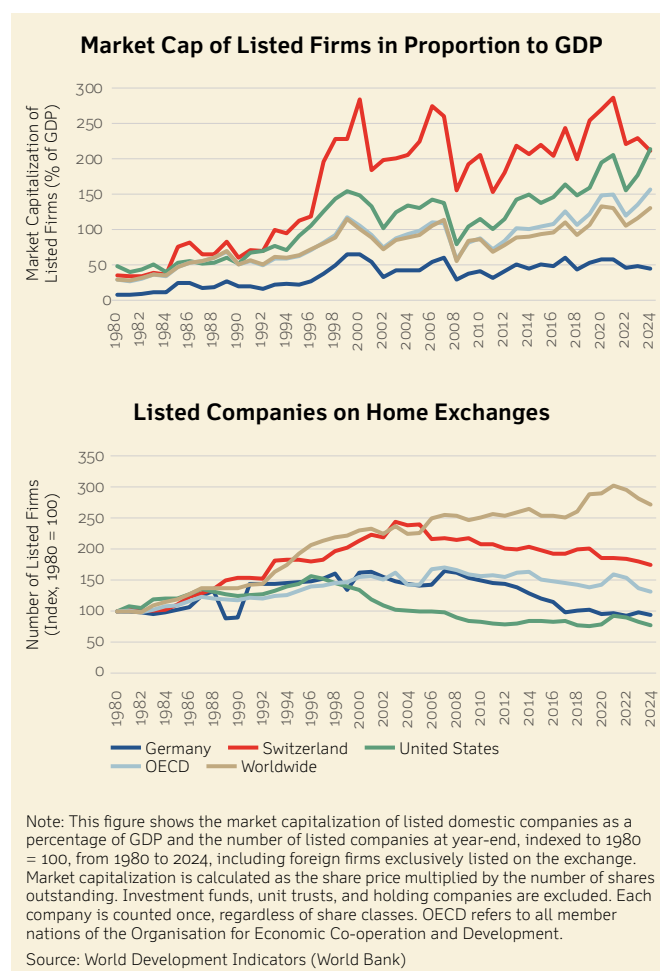


Stefan Pomberger: The standard figures on private markets usually emphasize private equity, private credit, venture capital, and real assets. But the picture changes dramatically depending on how real estate is treated. If the entire unlisted real estate universe—and its associated credit financing—is counted under real assets and private credit, the scale of private markets expands substantially. In Switzerland, the public bond market listed on the Swiss Stock Exchange remains a key reference point for investors and issuers. In 2024, close to CHF 80 billion in new bonds were issued, with capital flowing both to domestic and foreign issuers. Yet this public market represents only a fraction of overall financing. More than 90 percent of funding still occurs privately, led by mortgage-backed lending, followed by short-term credit lines to companies and financial institutions, loans to public-sector entities including state-affiliated firms, and loans to high-net-worth individuals and small and medium-sized enterprises.

How large are public markets, and how have they evolved alongside private ones?

Rüdiger Fahlenbrach: The size of public markets depends on how you choose to measure them. On the one hand, the number of listed companies has declined steadily, increasing market concentration. On the other, the aggregate market capitalization of public equities relative to GDP has expanded sharply over the past quarter century. The motivation for going public has shifted. IPOs once raised capital to finance growth, but since the Global Financial Crisis in 2008, they have more often served as liquidity events for early investors and employees, as private markets already hold large pools of cash. Amazon's IPO in 1997, with a market cap of just over USD 550 million, raised new capital for the firm and gave public investors access to a growth story at an early stage. By contrast, Palantir, a data analytics company, went public in 2020, via a direct listing, with a market cap of about USD 20 billion at the end of its first trading

day. With no new shares issued and no cash raised, the listing mainly gave liquidity to existing shareholders and employees, rather than financing future growth. This shift has limited the growth opportunities available to public-market investors. It is reinforced by mergers and acquisitions, with many listed firms—particularly in capital-intensive industrial sectors—being taken private and delisted.



How does the level of dry powder influence market dynamics?

► **Andreas Nicoli:** According to S&P data, private equity dry powder peaked in 2023 at around USD 2.7 trillion before edging lower in 2024 and 2025. High levels of dry powder show both market strength and future growth potential, but they also pressure GPs to put capital to work within their funds' lifetimes. This pressure can lead to tougher competition, weaker deals, and compressed returns. Dry powder, unlike cash on hand in public markets, is not liquid. It reflects LP commitments to provide funding over time, signaling both confidence and possible challenges if suitable deals are scarce.

How are private assets valued and how credible are those numbers?

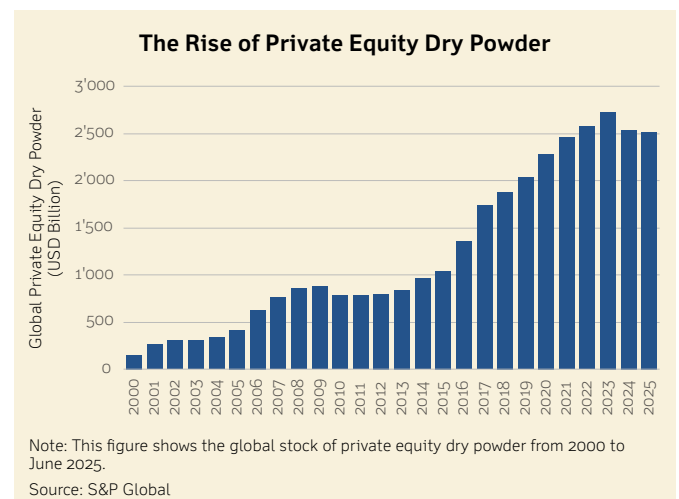
► **Vesa Pursiainen:** GPs typically rely on internal valuation models to monitor and value their portfolio companies. This allows for a fair degree of discretion. GPs are often cautious in revising externally reported values. They tend to avoid marking down assets, because that would imply losses and force LPs to write down their portfolios. At the same time, they hesitate to mark up assets too aggressively, to avoid overpromising if liquidation values end up being lower. As a result, valuations are sticky. Numbers reported on paper smooth volatility and create stability, but they may only partly reflect reality. Ultimately, what really matters is the cash received at liquidation, when the assets are sold and the valuations are tested in the market.

► **Pascal Böni:** Valuing private assets is far from straightforward and the challenges differ between equity and credit. Credit instruments are easier to price: Because their value is bounded by contractual repayment schedules and, in some cases, backed by collateral, their values oscillate closely around face value. Equity valuations are more uncertain: Their reliance on assumptions about growth and exit prospects makes them particularly prone to errors or manipulation, especially around fundraising cycles. While we regularly hear about highly profitable deals in private equity, the average expected long-term U.S. dollar return to private equity, currently 11 percent, is only marginally more attractive than that of private credit, which is expected to return 9 percent. Once the volatility of returns is considered, private credit appears to win the race.

Is low reported volatility real—or just delayed valuations?

► **Vesa Pursiainen:** The low volatility reported in private markets largely reflects appraisal-based valuations, rather than genuine resilience. Because valuations are updated infrequently, short-term shocks are smoothed out, creating an appearance of stability. While this might encourage some investors to underestimate risk, most LPs probably understand the mechanics. For some investors, smoother valuations may even be welcome, since they create portfolios that look more stable. In reality, private assets remain just as sensitive to macroeconomic and financial conditions as their public counterparts. Taking a business private does not make it any more stable, just as publicly listing a privately held firm does not make its business any riskier.

► **Stefan Pomberger:** Volatility in private markets resembles the default probabilities once implied by historical default tables, before the advent of credit default swaps. Back then, probabilities were derived from static ratings and not from traded instruments with dynamic supply and demand. Reported volatility therefore looked low, but actual volatility was underestimated. The arrival of credit default swaps changed the picture by adding liquidity and by making markets more transparent and easier to hedge in normal times, while also making them more prone to sharp spikes during periods of stress. Private markets today may be in a similar position, appearing to be stable mainly because trading is limited, but remaining vulnerable to sudden repricing if liquidity is needed during periods of stress.



Do private markets have a credible crisis record, or is the jury still out?

► **Rüdiger Fahlenbrach:** Private equity often looks stable in crises, because valuations are not marked to market. But this masks the fact that their positions are highly leveraged and can be more fragile than those of public markets. After the dot-com crash of 2000–2002, returns collapsed so badly that even investors like CalPERS, the California Public Employees' Retirement System, questioned their commitments to that asset class. In 2008, during the Global Financial Crisis, the main stress showed up in so-called "hung deals," in which banks had underwritten large buyouts but were unable to syndicate the debt once credit markets froze, leaving them stuck with the exposure. Venture capital is not immune either. Apparent calm should not be mistaken for lower risk.

► **Stefan Pomberger:** The track record is still inconclusive. Even in private credit, where stress emerges faster than in equity, there is no full crisis benchmark. A growing concern is the tendency to extend maturities to avoid recognizing losses, effectively postponing the problem. Deals struck in the low-rate years look far less attractive in today's higher-rate environment, where government bonds often yield more than legacy private credit. In the United States, extensions and quiet renegotiations have been common tools to manage liquidity pressures. Switzerland, however, stands out as an exception, with smaller rate hikes, lower credit ratios, and widespread use of long-term fixed-rate structures that have so far kept risks contained.

What are the biggest misperceptions investors hold about private markets?

► **Andreas Nicoli:** A persistent myth is that private markets always outperform their public peers. Outperformance is not consistent across horizons. Private markets may deliver a premium over the long run, but they still move in cycles. Top-tier GPs have historically generated strong returns, while average performance has declined as capital supply increased and deal activity slowed. Other misconceptions are that reported volatility reflects real risk, that fees and lockups are minor, or that all investors can access the leading managers.

► **Pascal Böni:** Many allocators assume that private credit directly competes with bank credit. In reality, the relationship is more complementary. Most mid-market companies today rely on both, with banks providing the core financing while private credit funds step in when regulation prevents banks from going further. Banks themselves often lend to business development companies, which are listed credit funds, because their risk-adjusted returns and fee structures are more attractive than lending directly to firms.

► **Stefan Pomberger:** Misunderstandings extend to the public markets themselves. Market capitalization based on the latest trade is a poor proxy for the value of an entire firm. The depth of bid and ask books shows why, since only a small fraction of shares actually changes hands at that price. Liquidity is also often overstated. Even for listed firms, only some of the equity is truly available for sale. Saudi Aramco illustrates this point. While it ranks among the world's largest companies by market cap, over 97 percent of its shares remain firmly in government or sovereign fund hands.

The Logic of Private Markets: Theory, Incentives, and Reality

Why do private markets exist at all?

► **Pascal Böni:** Every firm starts out private. The Dutch East India Company's 1602 IPO was the first time a single business raised capital from hundreds of investors through tradable shares, financing the company's risky overseas trade. This was the birth of public markets—created to finance ventures requiring resources on a scale no small group of merchants could provide. Today, however, private markets have grown deep enough to supply that kind of capital themselves. Many firms can now raise substantial sums privately, avoiding the need to go public altogether. Private markets thus offer a full alternative for companies that prefer to sidestep the governance, disclosure, and market pressures of being listed, while continuing to complement public markets for those that do choose to access them.

► **Andreas Nicolli:** Private markets, like any other market, exist to connect supply and demand. Investors seek returns, while firms in need of funding look for partners. But not every company qualifies for traditional bank financing. Banks focus on safer, standardized borrowers and are constrained by regulations. Private markets step in where bank credit is unavailable, whether because firms are too small, too risky, or too specialized. The trade-off is structural. Private markets are less liquid, more bilateral, and more relationship-driven than public ones. This creates room for tailored financing and closer monitoring, along with value creation, but also entails longer lock-ups and less transparency for outsiders.

► **Vesa Pursiainen:** Private markets can sometimes be better suited to providing long-term, stable capital and flexible deal structures. They allow investors to tailor financing to the company's needs, create stronger incentives for management and employees, monitor firms more closely, and provide access to external resources and expertise. These features can be very valuable during turnarounds—strategic transformations that require new approaches—or high-growth stages that require scaling and professionalizing. The trade-off for investors is illiquidity. Their capital is tied up for long periods, and they cannot control the timing of their investments. The fees charged by private market funds are also very high, even if their net performance is still competitive.

► **Stefan Pomberger:** Going public became the dominant growth path for companies through much of the twentieth century, peaking during the dot-com boom around 2000. Since then, with private financing expanding dramatically, many firms have been able to remain private much longer—or even indefinitely. Some companies have even returned to private ownership when conditions made it attractive. Berkshire Hathaway's acquisitions of GEICO, the auto insurer, and BNSF Railway, one of North America's largest freight networks, illustrate this dynamic. Both were large, transformative deals executed in private markets outside the reach of public shareholders. For investors, dissatisfaction with public markets—whether due to their volatility, limited access to growth opportunities, or rising concentration—has further fueled the appeal of private assets. Staying private allows firms to sidestep disclosure requirements and preserve control, while still tapping into deep, long-term capital. Public and private markets therefore coexist, each providing what the other cannot.

What are the main levers of value creation, and how much comes from financial engineering?

► **Vesa Pursiainen:** You can think of value creation in private equity through three main levers. The first is growth: increasing revenues through geographic expansion, new products, or more efficient sales and pricing. The second is margin expansion: improving efficiency, reducing costs, or adjusting strategy and business mix to increase profitability. The third is multiple expansion: acquiring companies at low valuation multiples and selling them later at higher ones. While valuations depend on market conditions, sometimes the GP can actively steer the business toward higher-multiple sectors and hence actively affect this. Roll-up strategies may also allow for buying small businesses at low multiples to create a larger business that sells at a higher multiple. Financial engineering and leverage, of course, matter, but they do not create value *per se*. Instead, they facilitate efficient investments and incentivize operational matters that then manifest in some of the three components above. The relative importance of the three components has varied over time. Some data suggest that margin expansion—the main proxy for operational improvements that private equity funds have historically been able to deliver—has substantially decreased in recent years. This may reflect the industry having become more competitive, making low-hanging fruit more difficult to find.

Is the illiquidity premium real—and is it durable?

► **Andreas Nicoli:** Investors usually expect higher returns in exchange for locking up their capital and taking on the higher risks of private equity, compared to more liquid and mature asset classes. This expectation is often framed as a reliable "illiquidity premium." The reality is less straightforward. History shows that excess returns and anomalies tend to fade once they are widely recognized, especially in buoyant financial conditions. If an illiquidity premium does exist, it is likely to diminish as more capital chases the same opportunities. Treating it as a fixed structural source of return can therefore be misleading. Over time, private markets should on average deliver higher returns than public markets, to offset their opportunity cost and added risks. Yet this outcome is not automatic and often depends on market cycles, the quality of managers, and investment horizons, rather than on illiquidity alone. In short, illiquidity is a characteristic of certain investments, not an asset class in itself.

Do private credit funds add distinct value—or just shift risk?

► **Rüdiger Fahlenbrach:** Private credit funds often step into areas where banks have retreated due to regulation, such as middle-market lending. While they provide much-needed access to capital, their risk profiles frequently resemble leveraged loans or high-yield bonds, with higher fees layered on top. Academic evidence shows that nonbank lenders usually serve riskier or more specialized borrowers and expand credit when banks retreat under tighter rules. Direct-lending terms can be highly customized and covenant-lite, implying different monitoring and risk transfer, rather than being a one-for-one bank replacement. The distinct value of private credit lies mainly in speed and structuring flexibility, but the exposures themselves remain cyclical and credit-sensitive, leaving investors with a risk profile that is not fundamentally different from bank credit.

► **Pascal Böni:** Private credit funds are not banks in disguise. They play a distinct role for several stakeholders. For investors, vehicles like business development companies offer appealing dividend returns in a diversified, publicly traded format. For banks, they provide an indirect way to channel capital to mid-market borrowers in a less restrictive regulatory environment. For companies, they create flexible and tailor-made financing options when traditional credit is unavailable. The industry has grown rapidly, now managing nearly USD 2 trillion in AUM. This compares to the U.S. leveraged loan market, with USD 1.5 trillion outstanding, and the U.S. high-yield bond market, with USD 1.7 trillion. This comparison shows that private credit does more than recycle bank risk; it complements bank lending and adds value.

► **Andreas Nicoli:** Private credit funds provide flexible financing to borrowers who may not fit traditional bank lending. These funds devote resources to monitoring individual loans, which is costly for regulated banks. In some cases, banks may prefer to lend indirectly through diversified private credit platforms. Market dynamics differ by country. In Switzerland, regional and cantonal banks maintain strong ties with small and medium-sized enterprises and often lend directly. Private credit is more likely to step in for higher-risk or cash-burning companies. Both models can coexist.

How far can public portfolios replicate private equity returns?

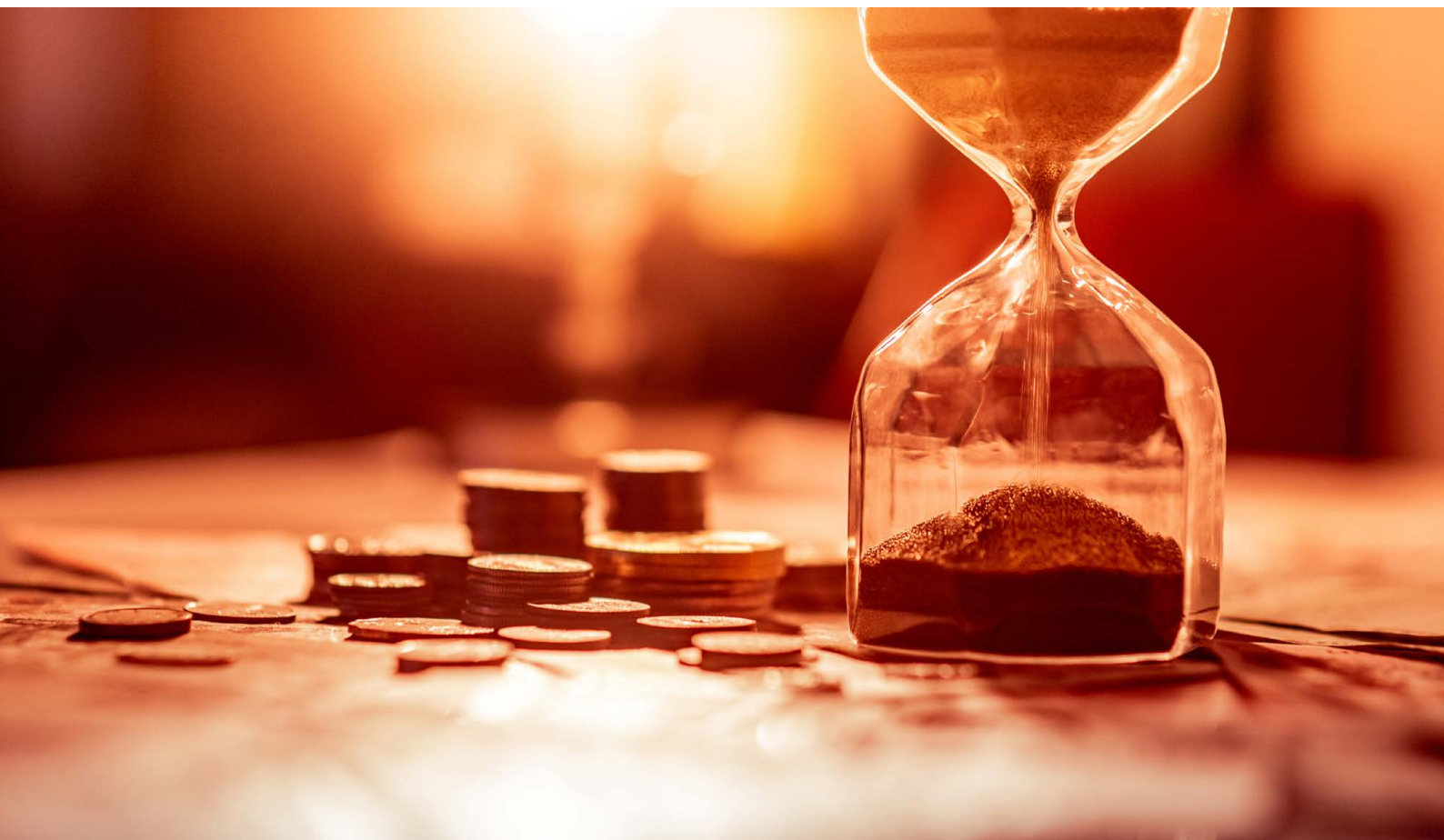
► **Rüdiger Fahlenbrach:** Public portfolios can replicate part of private equity's return profile by tilting toward factors such as small-cap, value, and leveraged stocks. Research shows that a significant share of private equity performance can be traced to these systematic exposures, making public proxies useful for allocation or benchmarking. At the same time, the replication is never complete. Public strategies cannot mirror the timing of capital calls and distributions, nor can they capture the active ownership, governance influence, operational changes, leverage, and structuring that define private equity. For investors, replication in public markets may offer lower fees and daily liquidity, but with it comes higher tracking errors. Private equity remains distinct for those who value direct ownership and the perceived benefits of illiquidity.

Does outperformance persist once firms grow large?

► **Stefan Pomberger:** Private equity is not a uniform industry. Firms range from small boutiques, with a handful of professionals managing a few hundred million U.S. dollars, to mega-funds employing thousands and overseeing more than a trillion U.S. dollars in AUM. At the smaller end, managers behave more like entrepreneurs, in that their skills, judgment, and personal commitment carry outsized weight and their mistakes can be costly. Large firms, by contrast, have already demonstrated their capabilities and have built the financial strength to absorb setbacks. The influence of any single partner is diluted in a broader pool of talent, and the firm's performance depends more on institutional processes than on individual flair. For investors, the key is understanding who they are backing. Commitments last a decade or more, and the durability of performance depends not just on a firm's size, but also on whether its strategy and incentives remain aligned with those of its investors over time.

How sensitive are private strategies to interest rates and macro cycles?

► **Rüdiger Fahlenbrach:** Private strategies are highly exposed to interest-rate conditions, given their dependence on leverage and on discounted cash-flow valuations. Rising interest rates push up their financing costs, reduce asset valuations, and compress exit multiples, all of which weigh directly on their returns. Academic evidence shows that buyout leverage and pricing move closely with aggregate discount rates and credit conditions. When equity risk premiums and credit spreads compress, deal activity and valuations increase, and when credit is cheap, leverage and entry multiples expand. In short, private equity performance is tightly linked to the broader macro-financing environment, rather than being insulated from it.



Are the usual fund performance multiples and metrics reliable guides?

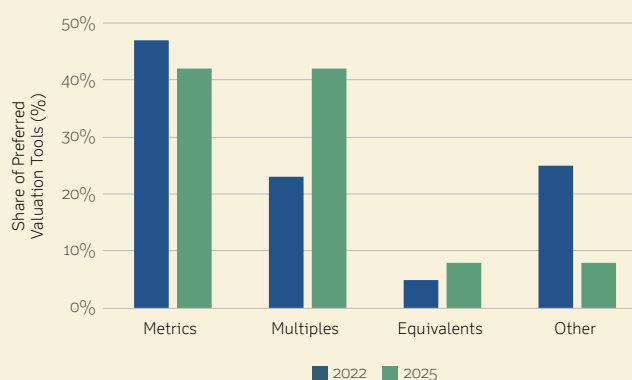
► **Rüdiger Fahlenbrach:** Ratio-based fund multiples, such as Distributed to Paid-In Capital (DPI) or Total Value to Paid-In Capital (TVPI), offer convenient snapshots of performance. Yet they are far from sufficient as a guide to investment strategy. Purely time-based metrics like the Internal Rate of Return (IRR) are also prone to distortion, as they can be inflated by quick early exits and rely on unrealistic assumptions about reinvestments at the same rate. These multiples and metrics describe capital flows through a fund but reveal little about risk, liquidity, or true economic returns. This is why alternatives such as the Public Market Equivalent (PME) or Direct Alpha have gained traction, since they benchmark private performance more realistically against public markets.

Do PME and Direct Alpha benchmarking tools really solve the problem?

► **Vesa Pursiainen:** PME and Direct Alpha are valuable tools and often more informative than IRR or fund multiples. Still, they come with limitations. Both require selecting a benchmark index, and no single index is a perfect match for a private equity fund or the broader market. The S&P 500, for instance, differs from typical buyout targets in terms of sector composition, company size, leverage, and geographic exposure. Other benchmarks have similar shortcomings. This opens the door to benchmark shopping, where results can be made to look more favorable depending on the chosen comparator. A practical approach is therefore to test outcomes against several indices and focus on consistency. It is also important to note that these measures do not capture any potential illiquidity premium.

► **Stefan Pomberger:** The reliability of multiples and metrics in private markets is inherently limited. Information is delayed, and GPs exercise considerable discretion over when and how it is reported. Standard measures fail to capture liquidity and risk, leaving investors without sophisticated ways of gauging true economic returns. No single number can summarize such a complex universe. In credit, ratings provide useful benchmarks, but equity investments in unlisted firms require deeper analysis. Market power, scalability, governance, and the degree of skin in the game can be as important as reported figures. In the end, finance is a social science, where outcomes reflect not only business plans and metrics, but also cycles, incentives, and sometimes luck. Investors who rely too heavily on headline ratios risk missing the broader dynamics that ultimately shape returns.

Fund Performance Evaluation Metrics, Multiples, and Equivalents



Note: This figure shows the preferred valuation tool in 2022 and 2025. Metrics capture performance in a time-weighted sense and account for the sequencing of capital calls and distributions (for example, IRR). Multiples show the ratio of value created relative to invested capital, ignoring timing (for example, DPI or TVPI). Equivalents compare private-market performance directly with public-market benchmarks (for example, PME). "Other" refers to tools that do not fall into any of these categories.

Source: McKinsey & Company

What does it take to cut through the complexity and allocate investments well?

► **Rüdiger Fahlenbrach:** Private markets are inherently complex, and running in-house programs requires deep expertise and significant capital. Some institutional investors, such as the Abu Dhabi Investment Authority, have built large internal private equity teams, while others—notably the Norwegian Government Pension Fund Global—have chosen to stay out, citing concerns over fees and opacity. Even at the trillion U.S. dollar scale, private markets are not automatically a fit. For retail investors, the challenge is even greater. Public markets benefit from regulators like the Swiss Financial Market Supervisory Authority (FINMA) or the U.S. Securities and Exchange Commission (SEC), which enforce strict disclosure standards. Private markets lack equivalent oversight, leaving investors with less visibility. Stronger and more consistent reporting standards would be a first step toward cutting through the complexity and making private markets more broadly accessible.

► **Pascal Böni:** Investors accustomed to live quotes and instant trades in public markets face a different reality in private markets. Here, valuations are shaped by reporting delays and appraisal biases, and in some cases deals never close. Fee structures are also less transparent than in simple, low-cost vehicles such as exchange-traded funds (ETFs). Developing the understanding and the conviction to allocate capital in this environment takes time and experience. It cannot be acquired overnight.

► **Andreas Nicoli:** Education, patience, and consistency are essential. A long horizon allows GPs to focus on value creation rather than on short-term noise, and consistent commitments help LPs capture compounding across cycles. Public and private markets differ in structure and cannot be viewed through the same lens. Investors need to understand the different fund types, since closed-ended, open-ended, evergreen, semi-liquid, and continuation structures each behave differently. Fees, taxes, and concentration also shape outcomes. For retail investors, the push toward democratization requires awareness that private equity funds are not comparable to an index ETF. Even within private equity, strategies vary widely. A mega-buyout platform might hold hundreds of stable companies, while a venture fund may concentrate on a small set of early-stage startups. These differences make it critical to understand what kind of vehicle one is entering. Portfolio diversification can help, since alternatives are less correlated with public markets, but the long-time horizon and need for liquid reserves must be kept in mind.



The Current State of Play: Liquidity Stress and Valuation Doubts

Are private funds still "beating public markets," and over what horizons?

► **Vesa Pursiainen:** Whether private funds outperform public markets depends on whom you ask, which data you use, the period under review, and the benchmarks you choose. In some periods, private equity seems to have delivered higher returns. In general, however, realized net returns have been close to those of public equity. This is especially true in recent years, as the industry has matured and capital flows have grown. These comparisons also do not fully adjust for differences in risk, which makes the idea of "beating public markets" a little misleading.

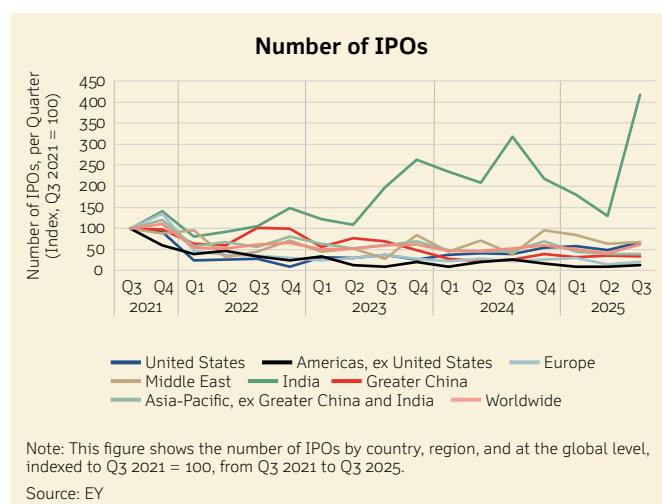
► **Rüdiger Fahlenbrach:** Research using cash-flow-weighted benchmarks shows that private equity's outperformance has been episodic and concentrated in certain vintages and strategies. Buyouts raised in the United States before the mid-2000s often beat public markets by several percentage points a year, while venture capital strongly outperformed in the 1990s, but underperformed in the 2000s. More recent academic studies find aggregate results closer to broad public benchmarks, especially when measured on a capital-weighted basis. Outcomes remain widely dispersed, with top funds continuing to deliver attractive returns, but persistence has weakened as the industry has scaled. The idea of a universal "private market premium" is therefore overstated, since performance depends heavily on manager selection and market timing.

Why has liquidity tightened, and what does today's pulse reveal?

► **Vesa Pursiainen:** Liquidity has tightened sharply as exits have stalled and distributions slowed. LPs are waiting longer for cash returns while their capital remains locked up, which also makes it harder for GPs to raise new funds. On the GP side, portfolios contain assets that managers would like to sell, but buyers are scarce at the prices the managers are asking. A series of overlapping shocks have contributed to the slowdown, including the COVID-19 pandemic, supply chain disruptions, inflation, rising rates, energy and geopolitical crises, and trade policy uncertainty. All of these factors have delayed exits.

► **Stefan Pomberger:** Regulatory and monetary shifts have reshaped liquidity. Post-crisis reforms, such as Basel III, pushed banks toward safer lending and left the riskier financing to private credit funds. Ultra-low rates encouraged investors to stretch for yield, but rising rates since 2022 have reversed this dynamic. Financing costs have surged, deal activity has slowed, and liquidity across private markets has declined. For now, default rates remain contained, but some sectors are under pressure internationally.

► **Andreas Nicoli:** Liquidity depends on mergers and acquisitions and on IPO activity, both of which have been scarce. Distributions have been close to zero for many funds, leaving LPs without cash flows to recycle into new commitments. Geopolitical uncertainty has also dampened buyers' appetites. Fundraising has slowed, and questions have emerged about whether GP valuations are realistic. The result is a holding pattern. After a disappointing 2024, there is cautious optimism that the second half of 2025 could bring a rebound. IPO markets have restarted, and more sponsor exits may follow.



Are investors pushing back on GP-led continuation funds?

► **Rüdiger Fahlenbrach:** Continuation funds allow GPs to move one or more portfolio companies out of a maturing fund and into a new vehicle, providing liquidity to existing investors while extending exposure to assets seen as attractive. These funds raise conflict-of-interest concerns, since the GP is on both sides of the deal and influences its valuation, fees, and terms. To address this problem, processes increasingly rely on fairness opinions, independent advisors, and competitive bids. Where these safeguards are weak, some LPs push back, preferring to cash out rather than roll over. Market reports suggest rollover rates are in the 20 to 40 percent range. Compared with the alternatives—such as extending a fund's life, which forces all LPs to stay in, or selling to another sponsor, which ends exposure entirely—continuation funds can provide a middle ground, offering a choice between liquidity and continued participation.

► **Vesa Pursiainen:** Investor reactions are mixed. Some LPs accept continuation funds as pragmatic in a market with scarce exits. Others worry that they signal weak opportunities or inflated valuations. Most LPs would still prefer conventional clean exits, even if that meant accepting lower prices than current valuations. Continuation vehicles also create new conflicts of interest, resulting in some skepticism about whether they serve LPs' best interests.

► **Andreas Nicoli:** The motivations for continuation funds are varied. They can provide solutions when exits are difficult, or when a company is judged to have more room to grow under the same GP's stewardship. Yet they also extend the fund's life and leave investors locked in longer than anticipated. Pushback tends to surface when these vehicles look like tools for delay rather than for genuine value creation, highlighting the need for a clear alignment of interests between GPs and LPs.



Are valuations catching up to reality across sectors?

Pascal Böni: Valuations lie at the core of today's private market debate. The challenge is that the reported figures continue to lag behind the underlying economic reality, since private appraisal values tend to adjust more slowly than public-market prices. This stickiness has delayed write-downs, but as exits remain scarce and financing conditions tighten, the gap is narrowing. Regulators have noticed. The SEC has challenged how private funds value and report assets, warning that the reported numbers may be too optimistic. The pressure from both market conditions and regulatory scrutiny suggests that valuations will continue to converge toward liquid-market prices.

What are the managers signaling in their earnings letters?

Pascal Böni: Earnings releases from the largest private market managers show a slowdown in fundraising. In 2000, the average fundraising cycle for private equity and private credit was seven and twelve months. Today, it is on average more than three times as long and has reached an impressive 23 and 29 months. Deal activity has declined substantially over the past four years, and consequently capital deployment has become more cautious, exits are taking longer, and fee-related earnings have softened. At the same time, managers are signaling that they expect conditions to remain challenging until financing costs ease and liquidity improves. The consistent

message is resilience rather than optimism. Firms emphasize their scale, diversification, and long-term capital as buffers, but they are not immune to the cycle. One striking example is that State Street, one of the world's largest asset managers, has partnered with Apollo, a leading private equity firm, to launch a private credit ETF with Apollo itself injecting liquidity to make the product appear tradable. This example shows the pressure managers face and their readiness to adapt by creating new vehicles to attract capital.

Time Spent Raising Capital in Private Debt Funds



Note: This figure shows the average fundraising duration for private credit funds from 2000 to October 2025.

Source: Preqin

Opening the Gates: Retail Access and the Future of Growth

Why are managers opening private markets to retail investors now?

► **Vesa Pursiainen:** Calls to broaden access are not new. What has changed is the context and the political climate. Public markets have become more concentrated, with fewer listings and growth opportunities, while private markets have expanded in size and scope. In some regions, political conditions are now more favorable to retail access, making it more feasible.

► **Rüdiger Fahlenbrach:** Both supply and demand factors explain the timing. On the supply side, the denominator effect in 2022 forced many institutions to scale back, as falling public markets inflated the weight of private assets and pushed allocations to their limits. That pressure has eased with the rebound in public markets, but the numerator side has become more binding. Distributions have slowed while capital calls continue, leaving LPs with negative net cash flows and short of liquidity. On the demand side, wealth managers and retirement platforms are seeking diversification and yield. Asset managers have responded by creating evergreen and interval funds that smooth entry and offer limited liquidity. Yet these vehicles do not change the fundamentals: Private assets remain illiquid, opaque, and costly. The retail push reflects a shift in who is asked to bear those frictions—rather than their elimination.

► **Pascal Böni:** Private markets are already awash with capital, as shown by the billions in dry powder built up during a decade of strong growth and low rates. The industry's best-known successes—such as Blackstone's 2007 Hilton Hotels LBO, ultimately yielding USD 14 billion in profit despite being struck on the eve of the Global Financial Crisis—illustrate the potential rewards. Yet these deals are exceptional and are rarely accessible to all. Democratization clearly benefits managers, banks, and portfolio companies, but whether retail investors will achieve attractive after-fee, risk-adjusted returns over a decade is much less certain.

Who benefits from retail access, and who bears the risks?

► **Vesa Pursiainen:** Private market managers, especially private equity funds, stand to benefit most. Retail inflows mean more fees and potentially a new source of capital to ease their liquidity pressure. For retail investors, the benefits are less clear. They might gain diversification and access to new asset classes, possibly with attractive risk-return profiles. But the costs are high, and retail investors often face more layers of fees than do institutional investors. Transparency is lower and complexity higher. These factors suggest caution. That said, restrictions on access should only be imposed when strong reasons for them exist. Retail investors already have access to speculative products in other markets, including highly leveraged foreign-exchange (FX) market trades or digital assets with questionable return prospects. It is not clear why private equity should be considered riskier than some of these.

► **Pascal Böni:** The key question is whether this expansion serves investors or the industry. If private equity reliably delivered strong outperformance, managers would not need to broaden their investor base. Opening access now may indicate that growth among traditional institutions has peaked. For managers, retail inflows expand AUM and extend the cycle; for retail investors, the benefits are far less certain.

Is there any effective way to hedge exposures in private markets?

► **Andreas Nicoli:** Hedging exists in private markets, but it lacks the scale and sophistication of public markets, where futures and options on blue-chip stocks like Apple trade across thousands of maturities and strikes. For private assets, that variety simply does not exist. In principle, one can hedge market, interest-rate, or sector risk through public derivatives, but the mechanics differ; because private valuations follow appraisal-based methods, hedges rarely offset losses one-for-one. Most importantly, there is effectively no way to hedge liquidity risk other than through portfolio diversification.

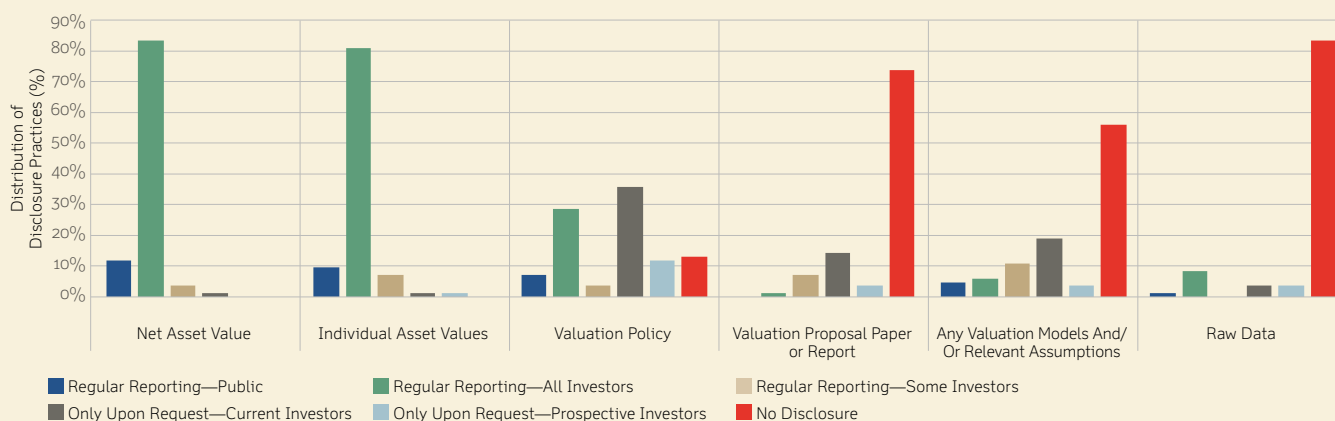
► **Stefan Pomberger:** Private markets lack the robust hedging infrastructure of their public counterparts, but some practical workarounds exist. Syndication—teaming up with other firms to share risk and limit exposure to a single company, sector, or geography—is the most effective. Large syndicates also offer informational and scale benefits. Beyond that, diversification remains the key tool. Spreading investments across more companies and inviting third-party participation helps distribute risk more evenly, even if it does not eliminate it.

What reforms could strengthen the alignment of interests and increase investor trust?

► **Andreas Nicoli:** Because private markets are long-term, illiquid, and opaque, trust between GPs and LPs is important. A transparent fee structure and ensuring the main decision-makers have skin in the game are well-established tools that can release major sources of tension. Fair management fees, related to costs and performance, can incentivize managers to optimize results. A fund's true performance can only be judged over its full life cycle, so GPs must report consistently and clearly. Reputation and trust depend on communication.

► **Pascal Böni:** Investors should begin with a clear sense of why they want to have exposure to private markets. Private equity is particularly challenging, since valuations can be biased, return estimates are uncertain, and liquidity is hard to assess. Private credit, typically with variable coupons and clear repayment schedules, is more transparent and provides a partial protection against inflation. Yet institutional investors—especially pension funds—allocate heavily to private equity, often under the influence of narratives shaped by the industry itself. Stronger alignment between LPs and GPs requires more transparent, data-driven reporting, so that decisions rest on evidence rather than persuasion. Most importantly, investors should assess private funds on risk-adjusted returns, such as PME or Direct Alpha, not on potentially misleading indicators, like IRRs or multiples.

Data and Valuation Transparency to Investors



Note: This figure shows metrics of transparency to investors, including net asset value, individual asset values, raw data, and valuation policies, proposals, and models.
Source: Financial Conduct Authority

If banks step back into lending, what happens to private credit?

► **Vesa Pursiainen:** There is clearly an element of regulatory arbitrage in private credit. Stricter regulation has made some loans less attractive for banks. Private credit funds, with greater flexibility and different risk appetites, have stepped in, generating some attractive returns. If bank regulations were loosened, some overlap in activity would return, but such changes do not seem imminent.

What would happen if retirement funds in the United States allocated their investments more heavily to private markets, and what lessons emerge from retirement policy debates?

► **Pascal Böni:** Retirement investors in the United States can be divided into three main groups. Traditional defined benefit pension funds, such as CalPERS with more than USD 500 billion in AUM, already invest heavily in private markets. Employer-based defined contribution savings plans, like 401(k)s, are growing quickly but still face limited access. Individual retirement accounts (IRAs) are subject to eligibility rules and face challenges of liquidity and valuation. Among the three, IRAs are the largest pool, followed by defined contribution and defined benefit plans. If more money were to flow from these newer channels—especially IRAs and 401(k)s—average returns would likely decline because attractive deals are limited. Retail investors would probably bear most of the impact. The key lesson here is that capacity limits are real, regardless of the narratives promoted by the industry.

► **Andreas Nicoli:** Basic supply-and-demand logic suggests that larger inflows without more high-quality deals would put pressure on average returns. The market would likely attract more participants, widening the gap between experienced GPs and newer entrants. On the positive side, greater competition could improve transparency and compress fees. Over time a new balance would emerge, and investors would have to judge whether their expected returns justify the risks.

► **Rüdiger Fahlenbrach:** The key issue is suitability.

Retirement savers often rely on default options and may not grasp the risks of illiquid holdings. Long lock-ups, uncertain cash flows, and high fees create a mismatch with their liquidity needs once they are retired. Evergreen and interval funds offer redemptions, but hold assets that cannot be sold quickly. In stress periods, investors may find their access restricted. Policy frameworks also differ. In the United States, the guidance of the Department of Labor has allowed some private equity in defined-contribution plans but raises concerns about protection, while Europe's revised European Long-Term Investment Fund (ELTIF) regime offers clearer safeguards. Without robust protections, retail access risks transferring illiquidity and opacity to the savers who are least able to manage them.

How are the largest private market managers reshaping the industry landscape?

► **Stefan Pomberger:** Private markets increasingly show a winner-takes-all dynamic, with mega funds dominating the industry. The economic reason is straightforward. Barriers to entry are extremely high. Because these investments unfold over long life cycles, it takes decades to prove skill and build a reputation. This favors established firms and makes the sector structurally oligopolistic. Smaller players can still carve out space in niche areas, but overall consolidation seems inevitable. What we have seen in banking and asset management, where mergers created today's global giants, may well play out in private markets too.

Are retail investors really ready for private markets?

► **Rüdiger Fahlenbrach:** On paper, private markets look like the ultimate long-term investments, making them attractive to retail savers planning for retirement. But the reality is less straightforward. Access to the most appealing deals is usually restricted; for retail investors, the likely entry point is through fund-of-funds structures. These provide diversification, but they add multiple layers of fees, eroding net returns. In many cases, well diversified, low-cost ETFs remain a more effective vehicle for retail portfolios.

► **Pascal Böni:** Even in private credit—often considered simpler than private equity—the challenges are real. Estimating risks and returns is complex, and while the average performance may exceed that of high-yield bonds, dispersion is wide. Investors often overemphasize the top quartile; in practice, especially when selection skills are missing, the probability of landing in the bottom-quartile is just as high. The return spread between top and bottom performers can exceed 50 percent in a single year. For retail investors, outcomes are highly uncertain—and far from the consistent "premium" often promised.

Bottom line—recalibrate, reform, or rebound?

► **Rüdiger Fahlenbrach:** The weight of academic evidence suggests that net returns in private markets are more modest than the industry narratives imply, with performance gradually converging toward public benchmarks as the asset class has matured. This conclusion makes it essential to recalibrate our expectations. Reforms in transparency and governance also appear necessary, especially given persistent concerns about fee opacity and conflicts of interest in GP-led transactions. While a cyclical rebound is always possible, if financing conditions ease, history shows that leverage and valuations follow cycles that do not necessarily translate into structural gains. Recalibration and reform should therefore take precedence over reliance on rebound alone.

► **Stefan Pomberger:** The path forward is more nuanced than a simple success-or-failure outcome. Turbulence is inevitable. Some deals will fail, and not all vintages will deliver. Stress events may accelerate standardization and trigger additional regulation, particularly if a systemic shock occurs. Yet the sheer weight of uninvested capital means that private markets will remain active. For investors with long horizons, they continue to offer a credible and attractive avenue, provided your expectations are measured and you prioritize resilience.





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Editor and contact

Dr. Cyril Pasche
Senior Director Publications and Topic Development
+41 22 379 88 25
cyril.pasche@sfi.ch

swiss:finance:institute

Walchestr. 9, CH-8006 Zurich, T +41 44 254 30 80
c/o University of Geneva, 42, Bd du Pont d'Arve, CH-1211 Geneva 4, T +41 22 379 84 71
www.sfi.ch

