

Beyond the public eye: The case for private markets

The rapid growth and evolution of private markets underscores their critical role in contemporary portfolio construction. While unique risks around liquidity, transparency, and fund selection persist, private investments offer a distinctive blend of diversification, yield, and access to high-growth sectors not available through public markets. The data support their inclusion for sophisticated investors seeking robust, long-term, risk-adjusted returns – provided they employ rigorous due diligence and select proven managers – something investors can rely on their trusted advisors to perform on their behalf. As private markets move further into the investment mainstream, their strategic importance for institutional and eligible private portfolios is set only to deepen.

Did you know? Four key facts on private market investing

- ▷ **Private Credit Yield Premium vs. Public Bonds:** Private credit yields are currently 200–300bps higher than comparable public corporate bonds, reflecting the illiquidity premium and bespoke structuring advantages. With global private credit approaching USD2trn AUM, this asset class is increasingly seen as a substitute for traditional fixed income (Apollo Academy, 2025).
- ▷ **Deposits vs. Private Market Returns:** As of Q3 2025, average UAE bank deposit rates remain around 2.0–3.8%, while private credit funds are generating 8–11% net yields (Apollo Academy, 2025). This stark spread illustrates why investors are increasingly shifting from cash and deposits toward private alternatives, especially as central banks cut interest rates.
- ▷ **Diversification Benefits:** Correlations between private equity and public equity remain below 0.7, and for private credit below 0.5, offering meaningful diversification benefits in multi-asset portfolios (S&P Global).
- ▷ **Institutional Allocation Trends:** Over 80% of global institutional investors plan to increase allocations to private markets in the next three years, citing resilience, diversification, and return potential as key drivers (McKinsey, 2025). This structural shift suggests private markets are no longer “alternative” but a core component of modern portfolios.

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What are Private Markets?

Private markets refer to investment markets where capital is allocated outside the realm of publicly traded securities. Unlike public markets – where shares of companies or debt instruments are bought and sold on exchanges – private markets comprise investments transacted through negotiated, non-public channels. The core segments include private debt (loans, credit), infrastructure, real estate, private equity (direct and via funds), and natural resources. Private markets have expanded beyond the traditional boundaries of leveraged buyouts and venture capital to now incorporate a broader spectrum of real assets and private credit, signifying their increasing complexity and relevance.

Private equity constitutes ownership stakes in private enterprises, often through buyouts, growth capital, or venture investments. Private debt includes direct lending, mezzanine financing, and distressed credit, primarily to non-public entities. Real assets, such as infrastructure and commercial real estate, represent physical objects or projects financed and operated through private arrangements. These asset classes are typically illiquid – investors must hold positions for years and cannot exit easily, in contrast to the daily liquidity of public securities.

Private markets are characterized by three distinctive features: the lack of standardized price discovery mechanisms (i.e., no centralized exchange), bespoke deal structures, and the requirement for intensive due diligence. The investment process involves negotiation, valuation, and considerable legal documentation, often tailored for each transaction. Leading investment firms and asset managers function as key intermediaries, often matching capital from institutional investors, family offices, and high-net-worth clients to private investment opportunities.

Data from the latest McKinsey Global Private Markets Review estimates total global private markets assets under management (AUM) at USD22.2trn as of Q2 2025, an all-time high, reflecting robust fundraising and expanding investor demand. This reflects a clear trend where capital increasingly flows toward alternatives to the public equity and bond markets, underlining private markets' systemic importance.

Types of Private Markets: Equity, Debt, and Real Assets

Private markets are generally divided into three fundamental asset classes: private debt, real assets, and private equity. Each class presents unique risk/return dynamics and entails distinct investment structures, processes, and governance.

Private Debt

Private debt refers to loans and credit extended outside the banking system or public bond markets. Structures include:

- ▷ Direct Lending: Bilateral or club deals between lenders and borrowers.
- ▷ Mezzanine Financing: Subordinated debt, sometimes with equity kickers.
- ▷ Distressed Debt: Investment in companies undergoing restructuring.

The growth in private credit has been particularly notable post-pandemic; S&P Global data shows private debt AUM surpassed USD1.6trn for the first half of 2025, fuelled by borrower demand and disintermediation from traditional banks.

Real Assets

This segment encompasses infrastructure, real estate, timber, and agriculture held through private vehicles. Investments typically involve long-dated, cash-flow generating projects like toll roads, renewable energy, and commercial buildings – offering both capital appreciation and income streams.

Private Equity

Private equity is characterized by investments in the equity of companies that are not publicly listed. Sub-sectors include:

- ▷ Venture Capital: Early-stage company financing.
- ▷ Growth Equity: Capital provided to mature startups aiming to scale.
- ▷ Buyouts: Acquisition of controlling stakes, usually leveraging debt.

Private equity managers actively influence underlying companies via operational improvements, financial restructuring, and strategic guidance.

From a portfolio construction perspective, private assets are valuable diversifiers, often exhibiting low correlation with equity and fixed income benchmarks and serving as a partial inflation hedge. The combined spectrum of these asset classes allows investors to access idiosyncratic deals, alter risk exposures, and harness operational or structural alpha inaccessible in public markets.

How are Private Markets different from Public Markets?

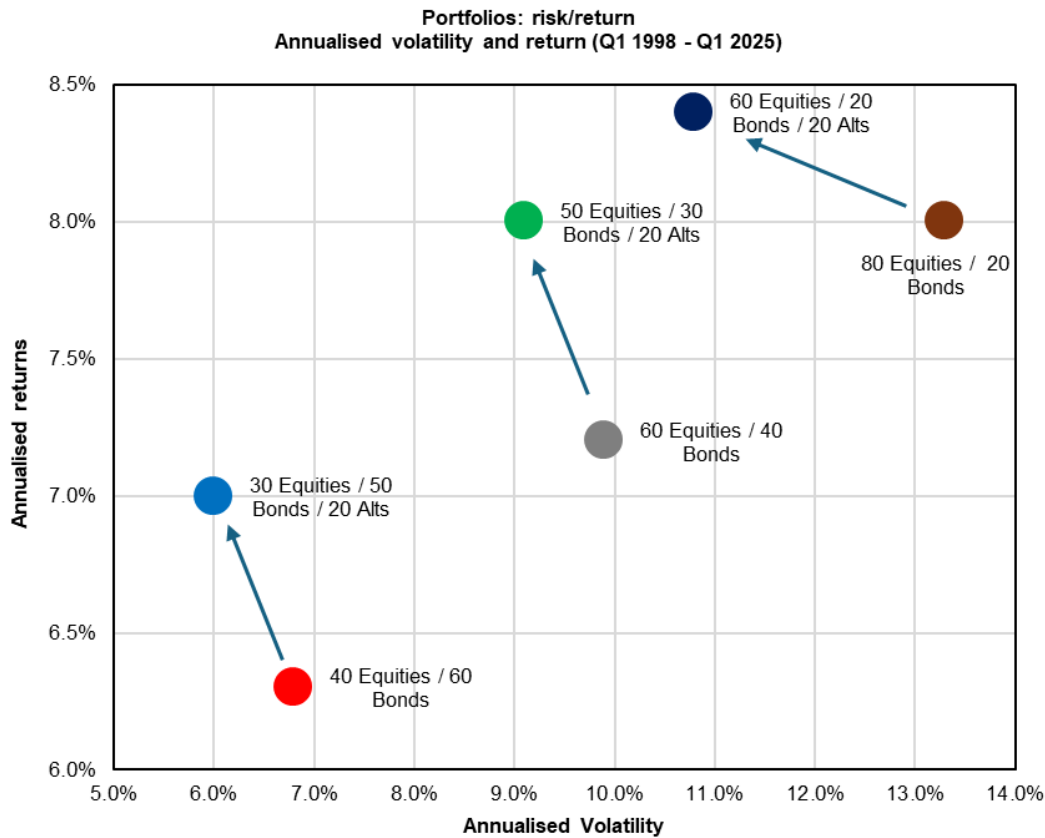
The divergence between private and public markets is multifaceted, involving structure, transparency, regulatory oversight, liquidity, valuation, and risk profiles.

- ▷ **Transparency and Disclosure:** Public markets are characterized by strict financial reporting, periodic disclosure, and standardized governance regulated by statutory bodies like the SEC in the US and SCA in the UAE. Investors benefit from a wealth of real-time information – prices, volumes, filings – which supports price discovery and efficient allocation. In contrast, private markets function on negotiated transactions, with limited or no public disclosure, making due diligence a critical component. Investors often rely on data rooms, management interviews, and private data to evaluate opportunities.
- ▷ **Liquidity constraints:** Private market investments are generally illiquid. Lock-up periods range from five to ten years, and exit options (such as trade sales or secondary transactions) might depend on prevailing market conditions or negotiation with counterparties. Public securities, by contrast, can be transacted almost instantaneously on exchanges, supporting tactical rebalancing and daily liquidity needs. Recent years have seen innovations that aim to make private market investments incrementally more liquid.
- ▷ **Valuation methodologies:** Public securities are priced by the market in real-time. Private investments, however, require complex valuation approaches: discounted cash flow (DCF), precedent transactions, or comparable company multiples, sometimes with input from third-party valuation agents. The absence of a "market price" increases subjectivity but also creates opportunities for mispricing and alpha generation for skilled investors.
- ▷ **Regulatory and Legal differences:** Public markets are governed by rigorous regulatory architectures emphasizing investor protection, systemic stability, and transparency. Private markets, while subject to contract law, typically operate with less regulatory intervention. However, this is gradually shifting as global regulators increase their scrutiny of large private funds and cross-border dealmaking.
- ▷ **Risk/Return and Performance profiles:** Private markets offer the potential for superior net returns and lower short-term volatility compared to public counterparts, albeit with higher complexity, illiquidity, and manager dispersion risk. For example, according to Hamilton Lane's Q3 2025 data, global private equity funds (2015–2022 vintages) produced a median net IRR of 14.2%, versus 9.9% for global public equities as represented by the MSCI ACWI over a comparable holding period. However, pinpointing fund performance and identifying skilled managers remains a crucial challenge.

Why do investors need Private Markets in their portfolios?

- ▷ **Portfolio diversification and return enhancement:** One of the core rationales for private market inclusion is diversification. Academic literature robustly documents that private markets, due to their illiquidity premium, offer exposure to return drivers not captured by public market assets. As explained in the Financial Analysts Journal (2025), the return streams of private equity and real assets are less correlated with traditional portfolios, increasing risk-adjusted returns when combined appropriately. This low correlation is especially valuable during periods of public market volatility. Additionally, private markets provide access to sources of alpha unavailable to public investors – such as proprietary deal flow, operational improvements, and market inefficiencies. According to BlackRock's 2025 Private Markets Outlook, allocations to private market funds have contributed an average return enhancement of 300–500bp annually versus a traditional 60/40 stock-bond mix over the trailing decade. Also data from J.P.Morgan Asset Management shows that adding alternatives/private markets improved portfolio risk-return characteristics meaningfully across risk categories (exhibit 1).
- ▷ **Access to unlisted economic value creation:** Private markets expose investors to companies at different lifecycle stages and industries less represented in indices. Many high-growth companies delay IPOs or remain private indefinitely, with their most dynamic value creation occurring off-exchange. This enables investors to participate in the "growth engine" of the global economy directly through private ownership, notably in technology, healthcare, and green infrastructure. Private credit investors get to play this too by getting an opportunity to lend to companies that do not necessarily seek funding from banks.
- ▷ **Inflation protection and Yield in a low-rate environment:** Infrastructure and real estate assets – cornerstone private strategies – offer cash yields often linked to inflation via contractual terms or regulatory frameworks. In a period where nominal yields on public bonds have trended lower and equity valuations are elevated, private markets have delivered stable income with potential inflation-hedging benefits.
- ▷ **Manager skill and active ownership:** Empirical analysis underscores that skilled private market managers, through value creation levers and governance rights, deliver net outperformance above passive public benchmarks. However, investors must carefully select managers and strategies, given the significant dispersion of outcomes – top-quartile funds have consistently outperformed median and bottom-quartile peers by wide margins for the last decade.

Exhibit 1: Adding alternatives/private markets improves portfolio risk-return, across risk profiles



Source: J.P.Morgan Asset Management (Guide to Alternatives), and ADCB Asset Management

Risk, due diligence, and regulatory considerations

- ▷ **Risk and liquidity:** Illiquidity risk, manager selection risk, and operational complexity remain the main challenges for private markets investors. Successful allocation requires a willingness to forgo daily liquidity, as redemption terms can be rigid and secondary market transactions may entail discounts to net asset value, particularly in volatile periods. Furthermore, performance can vary widely by vintage year, geography, and strategy – exacerbated by macroeconomic shocks or rapid rate changes.
- ▷ **Due diligence and best practices:** The investment process for private assets is notably intensive. This rigor is necessary given the bespoke nature of deals and the lesser degree of standardization compared to publicly traded assets. Individual investors typically rely on their trusted investment advisors to perform this due diligence for them.
- ▷ **Regulatory evolution:** Global regulatory landscapes are evolving. The UAE and EU, for instance, have implemented new disclosures, capital requirements, and marketing rules for private funds, aimed at increasing transparency and aligning incentives. In the US, the SEC's 2025 rule package imposes enhanced reporting and conflict-of-interest standards for private fund managers – an acknowledgement of the growing systemic role played by private capital pools.

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