

## GUEST ARTICLES (cont.)

# Navigating Private Markets in a Liquidity Constrained Environment

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Liquidity conditions in private markets remain a central concern for allocators today, prompting renewed questions about the value of private allocations relative to public equivalents. This is not because the case for private assets has disappeared, but because the path from reported value to realised cash has, in some cases, become materially longer. For those of us allocating on behalf of long-term multi-asset portfolios - in Capricorn's case for families, institutions and charitable foundations - the practical question is no longer simply whether private equity can outperform over time, but whether sufficient illiquidity premium exists to justify the long lock-ups and fee drag that remain a feature of many strategies.

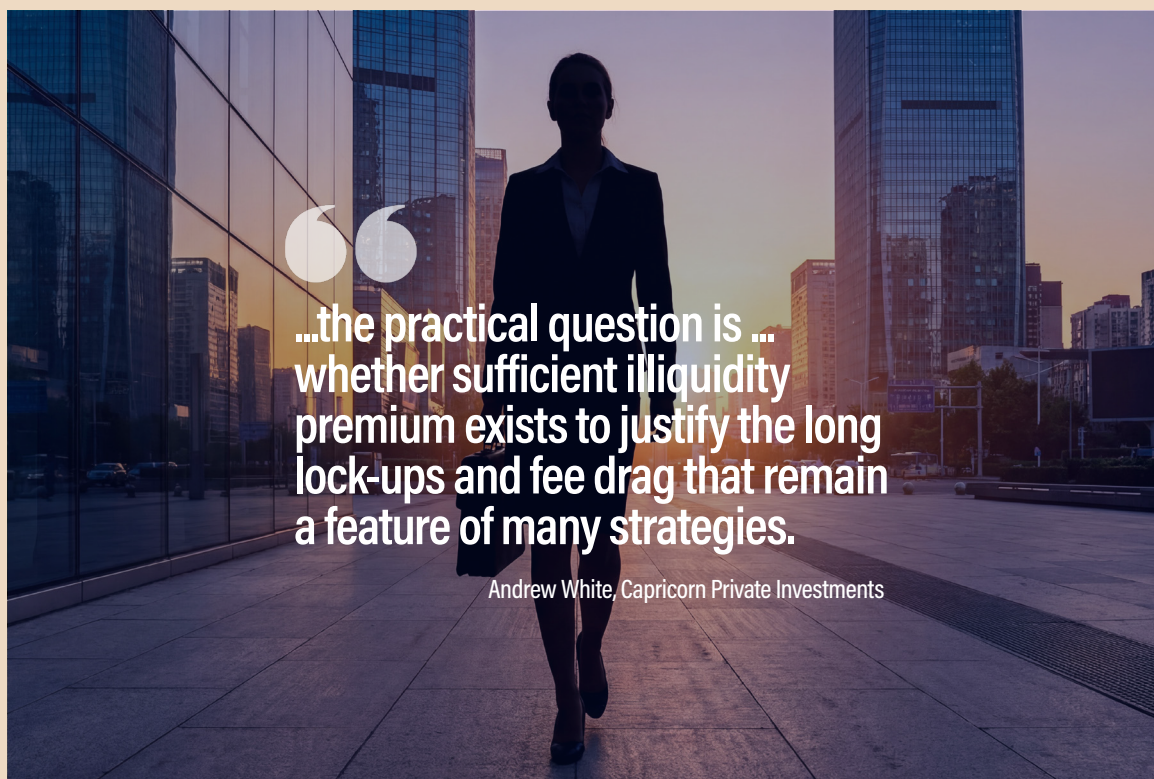
That question deserves greater scrutiny in a higher-rate environment than it did during the years when falling discount rates, abundant liquidity and ready leverage did much of the heavy lifting. The global interest-rate environment sits at the heart of this adjustment. Higher rates have made traditional buyout underwriting more demanding by raising financing

costs, constraining leverage and reducing the scope for multiple expansion. The recent Bain & Company: Global Private Equity Report 2026<sup>1</sup> highlights that where once a 5% annual growth in EBITDA was required to return a 2.5x multiple over a five year hold period, due to higher interest rates and lower leverage ratios, an equivalent EBITDA growth rate of 10-12% is now required. That does not mean buyouts are unattractive; it does mean, however, that the return equation is far more demanding, and the likelihood of achieving the expected returns to justify illiquidity is consequently far less certain.

While the degree of 'premium' demanded by individual investors for illiquidity is highly subjective, we would broadly expect an annualised net return of 300-500bps above public market equivalents to be sufficient compensation to lock-up assets for a period of a decade – or more in some instances.

The most immediate challenge has been weaker M&A

<sup>1</sup> Bain & Company Global Private Equity Report 2026



**GUEST ARTICLES** (cont.)

and capital markets activity. Distributions, or DPI, have declined markedly as a proportion of fund NAV since 2017, according to the same Bain report. This has contributed to hold periods for portfolio companies at their longest on record, with over 39% of global active buyout-backed companies now held for longer than 5 years (according to the same source). This matters beyond the optics of distributions; lower DPI impairs pacing, reduces flexibility to recommit capital and increases the opportunity cost of remaining tied up in ageing vintages just as new investments may be emerging across both liquid and less-liquid strategies.

Private credit also deserves a more nuanced place in the conversation. The asset class has delivered strong recent performance, with direct lending strategies for example annualising at around 4% above high yield bonds over the past decade<sup>2</sup>. We believe select areas of private credit remain attractive, particularly where recent dislocations have improved pricing. However, the growth of semi-liquid vehicles has highlighted a basic structural point: liquidity at the fund level cannot exceed the liquidity of the underlying assets for long. Redemption gates and queues are not necessarily signs of stress, and are designed to protect long-term value when redemption requests rise. The same principle applies more starkly to private equity evergreen structures, an area where caution is warranted given the illiquidity of the underlying fund investments make the imposition of fund level gates in future almost inevitable.

That said, one enduring benefit of private equity allocations is that they are not marked every day, and can therefore help investors look through shorter periods of public-market volatility and disruption. In the current environment, with instability linked to the Middle East conflict affecting oil prices and broader market sentiment, that behavioural advantage should not be dismissed. The closed-end nature of private equity can help long-term investors remain focused on underlying company progress



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rather than daily price action.

This brings us back to the illiquidity premium itself. In our view, it should no longer be treated as a default assumption attached to anything private. In some parts of venture capital and private equity, once fees and lock-ups are fully taken into account, the premium may not be compelling enough to justify the trade-offs. The real value of illiquidity now lies less in broad exposure to the asset class and more in selecting those managers and strategies where the compensation for locking up capital is both visible and justified. Clearly, determining with certainty ex-ante which funds are likely to deliver such returns 10 years into the future is an impossibility; rigorous quantitative analysis of historic performance and qualitative assessment of a manager's process and strategy – including thorough referencing – can help bridge the uncertainty as best possible.

Our bias remains towards lower middle-market buyouts and other idiosyncratic opportunities where manager skill, pricing discipline and operational value creation can still drive attractive outcomes. We also continue to see merit in select co-investments and parts of the secondaries market, though selectivity remains critical. The opportunity set has not disappeared, but it is no longer broad enough to justify blind vintage-year deployment or undifferentiated exposure to the asset class.

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*Capricorn Private Investments is a London-based private investment office, serving as an outsourced investment partner to family offices, entrepreneurs, endowments and charitable foundations. Capricorn provide highly customised investment solutions across asset classes and aim to deliver to clients a service equivalent to having capital managed by their own dedicated family office with the investment approach of a leading institution.*

<sup>2</sup> J.P.Morgan Asset Management: Guide to Alternatives

