

**Financial Services Regulation Committee
House of Lords**

By online submission

Growth of private markets following reforms introduced after 2008

MSCI welcomes the opportunity to respond to the Financial Services Regulation Committee's ("Committee") Inquiry into the growth of private markets in the United Kingdom ("UK") following reforms introduced after 2008 ("Inquiry"). As a global provider of research, data and analytical tools across both public and private markets, MSCI welcomes the Committee's examination of private market developments and is pleased to contribute to its efforts to foster a comprehensive understanding of their scale, interconnections, opportunities, and the potential implications for systemic risk.

MSCI's private capital dataset is a leading source of insight into the performance, cash flows, and transparency of private capital funds as well as their investments in portfolio companies. We calculate more than 200 indexes that cover the spectrum of private capital asset classes.

We have the following general observations, with more detailed comments on selected questions in the Annex:

- **Growth of UK private markets:** MSCI data indicates that private markets in the UK grew by 56% between 2015-2025 to approximately \$185 billion in capitalisation. Of this, about 48% is attributable to private equity, 18% to private credit and 32% to real assets.¹
- **Valuation challenges:** Difficulties in valuing private market assets make it more difficult for investors to assess their exposures, reinforcing the importance of transparency. The implications for financial stability, however, differ across asset classes.
- **Data availability:** Globally, access to reliable information on private markets remains limited, constraining visibility and comparability. However, investors receive regular updates on the positions and performance of their fund vehicles. Data providers such as MSCI play an important role in aggregating, analysing, and enhancing the transparency of these information flows.

MSCI appreciates the Committee's attention to the important issues raised by the growth of private markets in the UK. We look forward to continued engagement and would be pleased to provide additional detail or clarification to assist the Committee's deliberations.

Yours sincerely,



**Neil Acres
Managing Director
Government & Regulatory Affairs**

¹ The remaining 2% is attributed to generalist and other funds.

Question 3: What are the implications of the growth in private markets, and interconnections with the wider financial services sector, for lending to the real economy and the UK’s financial stability?

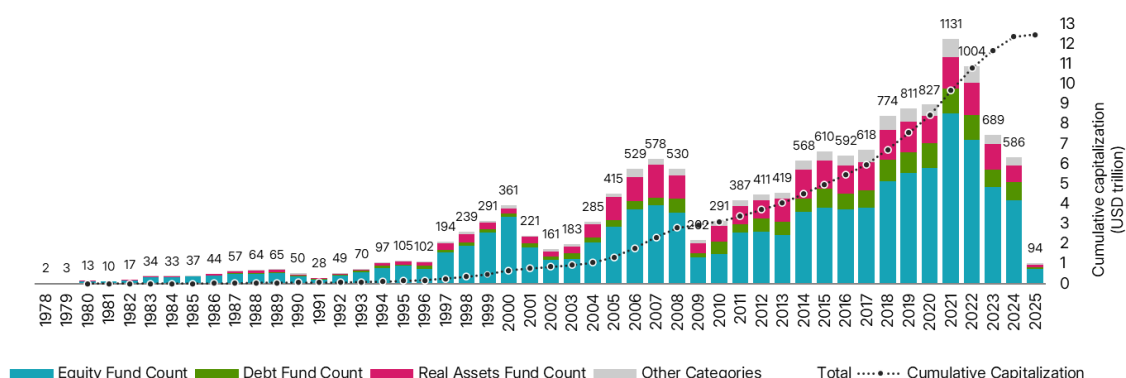
Growth of private markets

Private markets represent an increasingly important source of performance and diversification for investors. Their potential is often linked to General Partners’ (GP) expertise, the illiquidity premium, and structural advantages such as leverage and size exposure. They also provide access to opportunities not typically available in public markets, particularly in emerging technologies and mid-market ventures. For large investors, these markets mitigate capacity constraints seen in listed small caps.

MSCI data demonstrates this transformation. Over the past decade, global private markets have grown significantly in both scale and complexity, reaching \$10.4 trillion in capitalisation as of 31 March 2025, representing a 2.5-fold increase since 2015.

Looking ahead, as private markets continue to expand their role in global capital formation, it will be essential for policymakers, regulators, and investors to deepen their understanding of these markets’ dynamics and potential systemic implications, ensuring sustainable growth.

Global Private markets – Fund Count and Cumulative Capitalisation 1978-2025(Q1)



Data as of Q1 2025.

In the UK, private markets have also grown by 56% during the same period, reaching approximately \$185 billion in capitalisation as of Q1 2025. Of this, around 48% is attributable to private equity (including buyout, venture capital, expansion capital, as well as generalist and other strategies), while private credit accounts for 18% and real assets for 32% (with the remaining 2% attributed to generalist and other funds).

Implications for market risk and financial stability

Private markets introduce risks that extend beyond those typically associated with public markets, notably liquidity constraints and valuation subjectivity. Two features of private-capital data heighten these concerns. First, reporting is typically delayed by one quarter, limiting asset owners’ real-time visibility into the status of their portfolio. Second, the absence of readily available liquid market references introduces a degree of subjectivity into valuations. Following significant market moves,

these factors can leave investors uncertain about their exposures, their allocations relative to targets, and their expectations for near-term returns. However, according to MSCI's research,² funds tend to have a bias in the direction of somewhat undervaluing (rather than overvaluing) their holdings.³ Nonetheless, given asset owners' growing exposure to private markets, transparency around risk and return dynamics remains critical.

Private markets' relevance to financial stability varies from one asset class to another. For instance, private credit may be sensitive to the interest rate environment and financial resilience of borrowing companies. While elevated rates may help increase returns, a prolonged higher-for-longer rate environment could strain borrowers and increase the probability of default. In private equity, the main challenge lies in asset valuations, particularly against a backdrop of market compression and broader macroeconomic uncertainty.

Implications for real economy lending

Private capital funds are increasingly important contributors to real economy financing. One of the core competencies of private markets is their ability to identify, scale and finance early-stage companies with solutions that may not be available in the public markets. For large investors facing capacity constraints in small-cap listed equities, private equity offers an alternative channel for directing capital toward smaller enterprises.

In the UK, sector allocations show a distinctive pattern. As of Q1 2025, financials (as per the Global Industry Classification Standard, GICS) accounted for roughly 18% of the valuation of private-capital fund holdings — double the 9% share seen globally. By contrast, private-capital fund exposure to UK companies in information technology and health care was lighter at 18% and 10% respectively, compared with 23% and 13% across the rest of the world. This sector composition reflects a unique blend of opportunities and risks for both investors and the wider economy.

² Based on U.S. market behaviour. [The Truth Will Out: Is Private Equity Overvalued? | MSCI](#)

³ Though, this is not the case during significant market moves such as the Global Financial Crisis or the recent COVID-19 pandemic, for certain types of private funds such as venture capital.

Aggregate Sector Composition of Private Funds' Holdings in the UK vs. in Rest of World, Q1 2023-Q1 2025



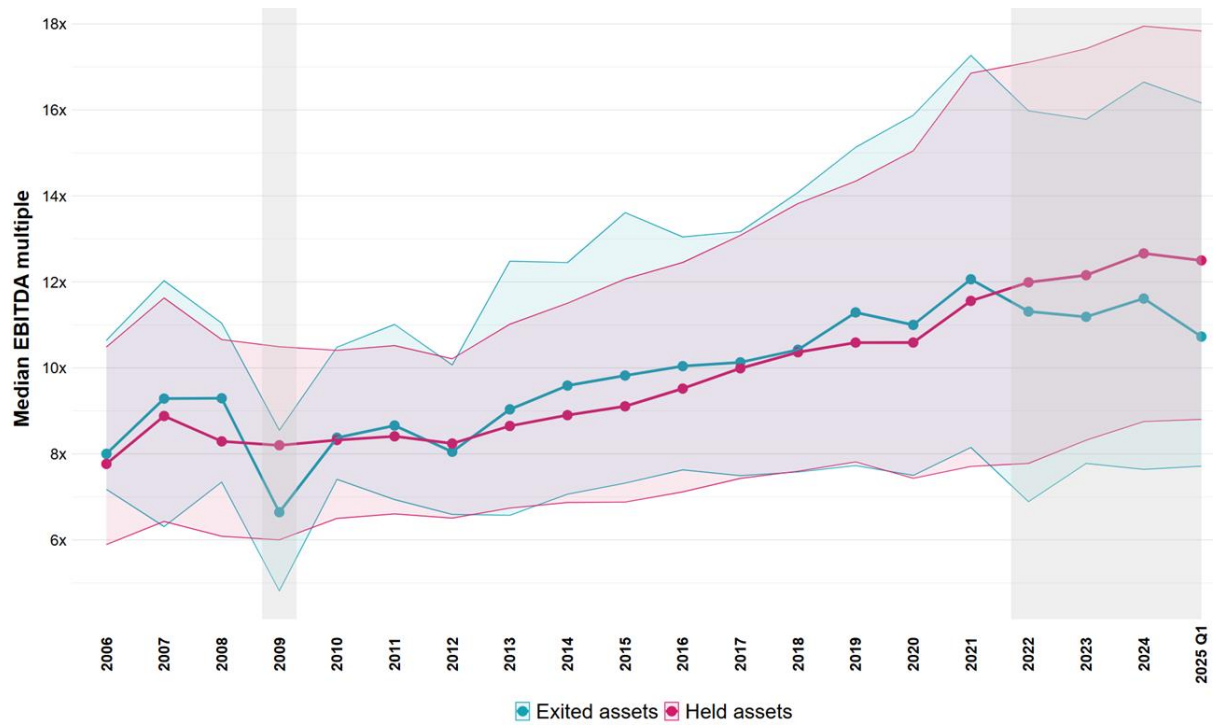
Percentages by private-capital fund holdings' net asset values (NAV). Data as of Q1 2025.

Question 4: How transparent are the valuations, price discovery mechanisms, and structure of ownership of assets adopted by private markets? Does the Bank of England have sufficient visibility in non-bank finance, and what changes, if any, should be made to address this?

Against the backdrop of rapid private market growth, access to timely and accurate valuation information has become increasingly important. Improved data availability and risk assessment tools are vital to safeguarding market integrity and stability. Although global markets have limited visibility into private assets, investors in these vehicles receive quarterly (or more frequent) updates on fund positions and performance.

MSCI maintains a broad perspective on these data flows. For example, MSCI provides reported valuations across both held and exited assets (*see chart below*), enabling investors to benchmark their portfolios against recent transaction outcomes. This data is complemented by expanded visibility into the operating metrics of underlying portfolio companies, offering investors deeper insight into the drivers of value creation.

Median Valuation Multiples Across Global Buyout Funds' Exited vs Held Holdings



As of Q1 2025. Ribbons represent the upper and lower bounds of the interquartile range. Shaded area highlights the years when exited assets' median EBITDA multiple was higher than that of held assets. EBITDA multiple = total enterprise value/EBITDA.